

ACC 204 Auditing

Course Information

Organization	Mercer County Community College
Course Number	ACC204
Credits	3
Lecture/Lab	3/1

Catalog Description

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

Prerequisites

ACC 201

Course Competencies/Goals:

- A. Analyze the degree to which internal control will assure proper reporting of transactions
- B. Recommend changes in processes, procedures and controls to improve the reliability and integrity of information
- C. Design audit programs that will detect errors, omissions and frauds
- D. Write adequate footnotes to financial statements
- E. Form opinions on the fairness of financial statements and other reports
- F. Write reports, including opinions or disclaimers, as appropriate, for audit, attest and assurance engagements

General Education Knowledge Goals:

- Goal 1. Communication. Students will communicate effectively in both speech and writing.
- Goal 2. Mathematics. Students will use appropriate mathematical and statistical concepts and operations to interpret data and to solve problems.
- Goal 4. Technology. Students will use computer systems or other appropriate forms of technology to achieve educational and personal goals.
- Goal 5. Social Science. Students will use social science theories and concepts to analyze human behavior and social and political institutions and to act as responsible citizens.
- Goal 8. Diversity. Students will understand the importance of a global perspective and culturally diverse peoples.
- Goal 9. Ethical Reasoning and Action. Students will understand ethical issues and situations.

MCCC Core Skills:

- Goal A. Written and Oral Communication in English. Students will communicate effectively in speech and writing, and demonstrate proficiency in reading.
- Goal B. Critical Thinking and Problem-solving. Students will use critical thinking and problem solving skills in analyzing information.
- Goal C. Ethical Decision-Making. Students will recognize, analyze and assess ethical issues and situations.
- Goal D. Information Literacy. Students will recognize when information is needed and have the knowledge and skills to locate, evaluate, and effectively use information for college level work.
- Goal E. Computer Literacy. Students will use computers to access, analyze or present

information, solve problems, and communicate with others.

Goal F. Collaboration and Cooperation. Students will develop the interpersonal skills required for effective performance in group situations.

Units of study in detail:

Part I

The Auditing Profession

After studying this part, the student will be able to perform all the objectives as set forth in each chapter, as follows (Course Competencies/Goals 1, 5; General Education Knowledge Goals 1, 5, 8, 9; MCCC Core Skills A, B, C, D, F):

Competencies:

The Demand for Audit and Other Assurance Services

Learning Objectives:

1. Describe auditing.
2. Distinguish between auditing and accounting
3. Explain the importance of auditing in reducing information risk.
4. List the causes of information risk, and explain how this risk is reduced.
5. Describe assurance services and distinguish audit services from other assurance services and nonassurance services provided by CPAs..
6. Differentiate the three main types of audits.
7. Identify the primary types of auditors.
8. Describe the requirements of becoming a CPA.

The CPA Profession

Learning Objectives:

1. Describe the nature of CPA firms, what they do, and their structure.
2. Understand the role of the Public Company Accounting Oversight Board and the effects of the Sarbanes-Oxley Act on the CPA profession.
3. Summarize the role of the Securities and Exchange Commission in accounting and auditing
4. Describe the key functions performed by the AICPA.
5. Use generally accepted auditing standards as a basis for further study.
6. Discuss the role of international auditing standards.
7. Identify quality control standards and practices within the accounting profession.

Audit Reports

Learning Objectives:

1. Describe the parts of the standard unqualified audit report.
2. Specify the conditions required to issue the standard unqualified report.
3. Understand combined reporting on financial statements and internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act..
4. Describe the five circumstances when an unqualified report with an explanatory paragraph or modified wording is appropriate.
5. Identify the types of audit reports that can be issued when an unqualified opinion is not justified.
6. Explain how materiality affects audit reporting decisions.
7. Draft appropriately modified audit reports under a variety of circumstances.
8. Determine the appropriate audit report for a given audit situation.
9. Discuss the impact of e-commerce on audit reporting.

Professional Ethics

Learning Objectives:

1. Distinguish ethical from unethical behavior in personal and professional contexts.
2. Resolve ethical dilemmas using an ethical framework.
3. Explain the importance of ethical conduct for the accounting profession.
4. Describe the purpose and content of the *AICPA Code of Professional Conduct*.
5. Understand Sarbanes-Oxley Act and other SEC independence requirements and other factors that influence auditor independence.
6. Apply the *AICPA Code* rules and interpretations on independence and explain their importance.
7. Understand the requirements of other rules under the *AICPA Code*.
8. Describe the enforcement mechanism for the rules of conduct.

Legal Liability

Learning Objectives:

1. Understand the litigious environment in which CPAs practice.
2. Explain why the failure of financial statement users to differentiate among business failure, audit failure, and audit risk has resulted in lawsuits.
3. Use the primary legal concepts and terms concerning accountants' liability as a basis for studying legal liability of auditors.
4. Describe accountants' liability to clients and related defenses.
5. Describe accountants' liability to third parties under common law and related defenses.
6. Describe accountants' civil liability under the federal securities laws and related defenses.
7. Specify what constitutes criminal liability for accountants.
8. Describe what the profession and the individual CPA can do and what is being done to reduce the threat of litigation.

Part II

The Audit Process

After studying this part, the student will be able to perform all the objectives as set forth in each chapter, as follows (Course Competencies/Goals 1, 2, 3; General Education Knowledge Goals 1, 2, 4, 5, 8, 9; MCCC Core Skills A, B, C, D, E, F):

Audit Responsibilities and Objectives

Learning Objectives:

1. Explain the objectives of conducting an audit of financial statements and an audit of internal controls.
2. Distinguish management's responsibility for financial statements and internal controls from the auditor's responsibility for verifying the financial statements and effectiveness of internal control.
3. Explain the auditor's responsibility for discovering material misstatements.
4. Classify transactions and account balances into financial statement cycles and identify benefits of a cycle approach to segmenting the audit.
5. Describe why the auditor obtains a combination of assurances by auditing classes of transactions and ending balances in accounts.
6. Distinguish among the five categories of management assertions about financial information.
7. Link the six general transaction-related audit objectives to the five management assertions.
8. Link the nine balance-related audit objectives to the five management assertions.
9. Explain the relationship between audit objectives and the accumulation of audit evidence.

Audit Evidence

Learning Objectives:

1. Contrast audit evidence with evidence used by other professions.
2. Identify the four audit evidence decisions that are needed to create an audit program.
3. Specify the characteristics that determine the persuasiveness of evidence.
4. Identify and apply the seven types of evidence used in auditing.
5. Understand the purposes of audit documentation.
6. Prepare organized audit documentation.
7. Describe how e-commerce affects audit evidence and audit documentation.

Audit Planning and Analytical Procedures

Learning Objectives:

1. Discuss why adequate audit planning is essential.
2. Make client acceptance decisions and perform initial audit planning.
3. Gain an understanding of the client's business and industry.
4. Assess client business risk.
5. Perform preliminary analytical procedures.
6. State the purposes of analytical procedures and the timing of each purpose.
7. Select the most appropriate analytical procedure from among the five major types.
8. Compute common financial ratios.

Materiality and Risk

Learning Objectives:

1. Apply the concept of materiality to the audit.
2. Make a preliminary judgment about what amounts to consider material.
3. Allocate preliminary materiality to segments of the audit during planning.
4. Use materiality to evaluate audit findings.
5. Define risk in auditing.
6. Describe the audit risk model and its components.
7. Consider the impact of engagement risk on acceptable audit risk.
8. Consider the impact of several factors on the assessment of inherent risk.
9. Discuss the relationship of risks to audit evidence.
10. Discuss how materiality and risk are related and integrated into the audit process.

Section 404 Audits of Internal Control and Control Risk

Learning Objectives:

1. Describe the three primary objectives of effective internal control.
2. Contrast management's responsibility for maintaining and reporting on internal controls with the auditor's responsibility for understanding, testing and reporting on internal controls.
3. Explain the five components of the COSO internal control framework.
4. Obtain and document an understanding of internal control.
5. Assess control risk by linking key controls, significant deficiencies, and material weaknesses to transaction-related audit objectives
6. Describe the process of designing and performing tests of controls
7. Understand Section 404 requirements for auditor reporting on internal control.
8. Describe the difference in evaluating, reporting, and testing internal control for non-public companies.

Fraud Auditing

Learning Objectives:

1. Define fraud and distinguish between fraudulent financial reporting and misappropriation of assets.
2. Describe the fraud triangle and identify conditions for fraud.
3. Understand the auditor's responsibility for assessing the risk of fraud and detecting material misstatements due to fraud.
4. Identify corporate governance and other control environment factors that reduce fraud risks.
5. Develop responses to identified fraud risks.
6. Recognize specific fraud risk areas and develop procedures to detect fraud.
7. Understand interview techniques and other activities after fraud is suspected.

The Impact of Information Technology on the Audit Process

Learning Objectives:

1. Describe how IT improves internal control.
2. Identify risks that arise from using an IT-based accounting system.
3. Explain how general controls and application controls reduce IT risk.
4. Describe how general controls affect the auditor's testing of application controls.
5. Use test data, parallel simulation, and embedded audit module approaches when auditing through the computer.
6. Identify issues for e-commerce systems and other specialized IT environments.

Overall Audit Plan and Audit Program

Learning Objectives:

1. Use the five types of audit tests to determine whether financial statements are fairly stated.
2. Select the appropriate types of audit tests.
3. Understand how information technology affects audit testing.
4. Understand the concept of evidence mix and how it should be varied in different circumstances.
5. Design an audit program.
6. Compare and contrast transaction-related audit objectives and balance-related audit objectives.
7. Integrate the four phases of the audit process.

Part III

Application of the Audit Process to the Sales and Collection Cycle

After studying this part, the student will be able to perform all the objectives as set forth in each chapter, as follows (Course Competencies/Goals 1, 2, 3, 4; General Education Knowledge Goals 1, 2, 4, 5, 8, 9; MCCC Core Skills A, B, C, D, E, F):

Audit of the Sales and Collection Cycle:

Tests of Controls and Substantive Tests of Transactions

Learning Objectives:

1. Identify the accounts and classes of transactions in the sales and collection cycle.
2. Describe the business functions and the related documents and records in the sales and collection cycle.
3. Understand how e-commerce activities affect the sales and collection cycle.
4. Understand internal control, and design and perform tests of controls and substantive tests of transactions for sales.
5. Apply the methodology for controls over sales to controls over sales returns and allowances.
6. Understand internal control, and design and perform tests of controls for substantive tests of transactions for cash receipts.
7. Apply the methodology for controls over sales and collection cycle to write-offs of uncollectible accounts receivable.

Audit Sampling for Tests of Controls and Substantive Tests of Transactions

Learning Objectives:

1. Explain the concept of representative sampling.
2. Distinguish between statistical and non-statistical sampling and between probabilistic and non-probabilistic sample selections.
3. Select representative samples.
4. Define and describe audit sampling for exception rates.
5. Use non-statistical sampling in tests of controls and substantive tests of transactions.
6. Define and describe attributes sampling and a sampling distribution.
7. Use attributes sampling in tests of controls and substantive tests of transactions.

Completing the Tests in the Sales and Collection Cycle: Accounts Receivable

Learning Objectives:

1. Describe the methodology for designing tests of details of balances using the audit risk model.
2. Design and perform analytical procedures for accounts in the sales and collection cycle.
3. Design and perform tests of details of balances for accounts receivable for each balance-related audit objective.

4. Obtain and evaluate accounts receivable confirmations.
5. Design audit procedures for the audit of accounts receivable, using an evidence planning worksheet as a guide.

Audit Sampling for Tests of Details of Balances

Learning Objectives:

1. Differentiate Audit sampling for tests of details of balances and for tests of controls and substantive tests of transactions.
2. Apply non-statistical sampling to tests of details of balances.
3. Apply monetary unit sampling.
4. Describe variables sampling.
5. Use difference estimation in tests of details of balances.

Part IV

Application of the Audit Process to Other Cycles

After studying this part, the student will be able to perform all the objectives as set forth in each chapter, as follows (Course Competencies/Goals 1, 2, 3, 4; General Education Knowledge Goals 1, 2, 4, 5, 8, 9; MCCC Core Skills A, B, C, D, E, F):

Audit of the Payroll and Personnel Cycle

Learning Objectives:

1. Identify the accounts and transactions in the payroll and personnel cycle.
2. Describe the business functions and the related documents and records in the payroll and personnel cycle.
3. Understand internal control and design and perform tests of controls and substantive tests of transactions for the payroll and personnel cycle.
4. Design and perform analytical procedures for the payroll and personnel cycle.
5. Design and perform tests of details of balances for accounts in the payroll and personnel cycle.

Audit of the Acquisition and Payment Cycle: Tests of Controls, Substantive Tests of Transactions and Accounts Payable

Learning Objectives:

1. Identify the accounts and the classes of transactions in the acquisition and payment cycle.
2. Describe the business functions and the related documents and records in the acquisition and payment cycle.
3. Describe how e-commerce affects the acquisition of goods and services.

4. Understand internal control, and design and perform tests of controls and substantive tests of transactions in the acquisition and payment cycle.
5. Describe the methodology for designing tests of details of balances for accounts payable using the audit risk model.
6. Design and perform analytical procedures for accounts payable.
7. Design and perform tests of details of balances for accounts payable, including out-of-period liability tests.
8. Distinguish the reliability of vendors' invoices, vendors' statements, and confirmations of accounts payable as audit evidence.

Completing the Tests in the Acquisition and Payment Cycle: Verification of Selected Accounts

Learning Objectives:

1. Recognize the many accounts in the acquisition and payment cycle.
2. Design and perform audit tests of property, plant, and equipment and related accounts.
3. Design and perform audit tests of prepaid expenses.
4. Design and perform audit tests of accrues liabilities.
5. Design and perform tests of income and expense accounts.

Audit of the Inventory and Warehousing Cycle

Learning Objectives:

1. Describe the business functions and the related documents and records in the inventory and warehousing cycle.
2. Describe how e-commerce affects inventory management.
3. Explain the five parts of the audit of the inventory and warehousing cycle.
4. Design and perform audit tests of cost accounting.
5. Apply analytical procedures to the accounts in the inventory and warehousing cycle.
6. Design and perform physical observation audit tests for inventory.
7. Design and perform audit tests of pricing and compilation for inventory.
8. Integrate the various parts of the audit of the inventory and warehousing cycle.

Audit of the Capital Acquisition and Repayment Cycle

Learning Objectives:

1. Identify the accounts and the unique characteristics of the capital acquisition and repayment cycle.
2. Design and perform audit tests of notes payable and related transactions
3. Identify the primary concerns in the audit of equity transactions.
4. Design and perform tests of controls, substantive tests of transactions, and tests of details of balances for capital stock and retained earnings.
5. Identify capital acquisition issues for internet-based companies.

Audit of Cash Balances

Learning Objectives:

1. Show the relationship of cash in the bank to the various transaction cycles.
2. Identify the major types of cash accounts maintained by business entities.
3. Design and perform audit tests of the general cash account.
4. Recognize when to extend audit tests of the general cash account to test further for material fraud.
5. Design and perform audit tests of the imprest payroll bank account.
6. Design and perform audit tests of imprest petty cash.

Part V

Completing the Audit and Other Assurance and Non-Assurance Services

After studying this part, the student will be able to perform all the objectives as set forth in each chapter, as follows (Course Competencies/Goals 3, 4, 5; General Education Knowledge Goals 1, 9; MCCC Core Skills A, B, C, D, F):

Completing the Audit

Learning Objectives:

1. Conduct a review for contingent liabilities and commitments.
2. Obtain and evaluate letters from the client's attorney.
3. Conduct a post-balance sheet review for subsequent events.
4. Design and perform the final steps in the evidence-accumulation segment of the audit.
5. Integrate the audit evidence gathered, and evaluate the overall audit results.
6. Communicate effectively with the audit committee and management.
7. Identify the auditor's responsibilities when facts affecting the audit report are discovered after its issuance.

Other Assurance Services

Specific Objectives:

1. Distinguish AICPA attestation standards from auditing standards and know the type of engagements to which they apply.
2. Understand the nature of *WebTrust* assurance services.
3. Understand the nature of *SysTrust* assurance services.
4. Describe special engagements to attest to prospective financial statements.
5. Describe agreed-upon procedures engagements.
6. Understand the level of assurance and evidence requirements for review and compilation services.

7. Describe special engagements to review interim financial information for public companies.
8. Describe other audit and limited assurance engagements related to historical financial statements.

Internal and Governmental Financial Auditing and Operational Auditing

Learning Objectives:

1. Explain the role of internal auditors in financial auditing.
2. Describe the auditing and reporting requirements under Government Auditing Standards and the Single Audit Act.
3. Distinguish operational auditing from financial auditing.
4. Provide an overview of operational audits.
5. Plan and perform an operational audit.

Evaluation of student learning:

Tests (4 @ 15% each)	60%
Integrated Audit Practice Case	20
Writing Assignment	10
Class participation	<u>10</u>
	100%