

ACC204 Auditing – Administrative Outline

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.

Prerequisite

ACC201 with a minimum grade of C

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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.

GENERAL COURSE OBJECTIVES

The successful completion of this course will require students to:

1. Define and interpret the basic principles of the auditing function.
2. Apply the principles and concepts to auditing procedures.

In addition to these general objectives, each student must demonstrate mastery of the specific objectives of each chapter as shown in the course outline, as well as complete the required Integrated Audit Practice Case.

Evaluation of student learning:

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

Units of study in detail:

The Profession and Need for Auditing

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:

1. Auditing: Integral to the Economy

Learning Objectives:

1. Define the objective of external auditing and describe its role in meeting society's demands for reliable financial and internal control information.
2. Identify 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. Identify 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.

2. The Auditor's Responsibility Regarding Fraud and Mechanisms to Address Fraud: Regulation, Corporate Governance and Audit Quality

Learning Objectives:

1. Define the various types of fraud that affect organizations.
2. Define 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.

3. Internal Control over Financial Reporting: Management's Responsibilities and Importance to the External Auditors

Learning Objectives:

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. Describe 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. Describe 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.

4. Professional Liability, Auditor Judgment Frameworks, and Professional Responsibility

Learning Objectives:

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.

5. Professional Auditing Standards and the Audit Opinion Formulation Process

Learning Objectives:

1. Identify and compare the various auditing standards that provide guidance on the audit opinion formulation process.
2. List and discuss the foundation principles underlying the auditing standards.
3. List the phases and related activities in the audit opinion formulation process.
4. Explain the concept of accounting cycles and discuss their importance to the audit opinion formulation process.
5. Describe the assertions that are inherent to financial statements and explain their importance to the audit opinion formulation process.
6. Define audit evidence and describe the purpose and types of audit procedures used to obtain audit evidence.

7. Discuss the importance of audit documentation and provide examples.
8. Discuss Audit Activities in Phase I of the audit opinion formulation process.
9. Discuss Audit Activities in Phase II of the audit opinion formulation process.
10. Discuss Audit Activities in Phase III of the audit opinion formulation process.
11. Discuss Audit Activities in Phase IV of the audit opinion formulation process.
12. Discuss Audit Activities in Phase V of the audit opinion formulation process.
13. Apply the concepts related to the auditor's assessment of internal control design effectiveness, implementation, and operating effectiveness.
14. Apply the framework for professional decision making and ethical decision making to issues involving conducting an audit.

6. A Framework for Audit Evidence

Learning Objectives:

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. Describe 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.

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):

7. Planning the Audit: Identifying and Responding to the Risks of Material Misstatement

Learning Objectives:

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.

8. Specialized Audit Tools: Sampling and Generalized Audit Software

Learning Objectives:

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. Describe 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. Describe 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.

Auditing the Business Cycles and Related Accounts

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):

9. Auditing the Revenue Cycle

Learning Objectives:

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. Determine 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.

10. Auditing Cash and Marketable Securities

Learning Objectives:

1. Identify 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. Determine 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.

11. Auditing Inventory, Goods and Services, and Accounts Payable: The Acquisition and Payment Cycle

Learning Objectives:

1. Identify 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. Determine and apply sufficient appropriate and substantive audit procedures for testing acquisition and payment cycle accounts, disclosures, and assertions.
9. Apply the framework for professional decision making and ethical decision making to issues involving the audit of acquisition and payment cycle accounts, disclosures, and assertions.

12. Audit of Long-Lived Assets: Use, Impairment, and Disposal

Learning Objectives:

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. Determine appropriate responses to identified risks of material misstatement in auditing long-lived assets.
7. Determine 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.

13. Auditing Debt Obligations and Stockholder's Equity Transactions

Learning Objectives:

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. Determine 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. Determine and 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.

Completing the Audit, Liability and Complex Auditing Issues

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):

14. Activities Required in Completing a Quality Audit

Learning Objectives:

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. Determine how to 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.

15. Audit Reports on Financial Statements

Learning Objectives:

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.

16. Advanced Topics Concerning Complex Auditing Judgments

Learning Objectives:

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.

17. Other Services Provided by Audit Firms

Learning Objectives:

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. Describe 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.

ACADEMIC INTEGRITY: Academic integrity refers to the total quality of the search for knowledge that a student undertakes. A student will be guilty of violating academic integrity if he/she:

- a. knowingly represents the work of others as his/her own.
- b. uses or obtains unauthorized assistance in the execution of an academic work
- c. gives fraudulent assistance to another student.

For any single violation of any of the College's policies on Academic Integrity in this course, the student will receive a zero for the assignment AND the final course grade will be lowered by one full letter grade (for example, a B would become a C). For a second violation, the student will fail the course. In all cases, the Chair of the Academic Integrity Committee will be notified of the violation and the penalty imposed. When two (or more) violations of academic integrity are reported on a student, the Academic Integrity Committee (AIC) may impose disciplinary penalties beyond those imposed in this course. The student shall have the right to a hearing before the AIC or a designated AIC subcommittee.

Reasonable Accommodations for Students with Documented Disabilities

Mercer County Community College is committed to supporting all students in their academic and co-curricular endeavors. Each semester, a significant number of students document disabilities, which may require learning, sight, hearing, manual, speech, or mobility accommodations to ensure access to academic and co-curricular activities. The college provides services and reasonable accommodations to all students who need and have a legal entitlement to such accommodations.