

AIS 630
Auditing and Assurance Services
Fall 2010

Professor Rittenberg, Ph.D., C.P.A., C.I. A.

Office: 4133 Grainger Hall

Office Hours: MW 2:30 – 4:00, or by appointment
MW 9:30 – 10:30 a.m.

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Class Meeting Schedule:

11:00 – 12:15. MW

1:00 – 2:15. MW

Supplemental Materials:

www.cengage.com/accounting/rittenberg

Ford Motor Co and Toyota Material can be downloaded by clicking on the title on the left hand side.

Required Materials:

- Rittenberg, L., Schwieger, B., and Johnstone, K., Auditing: A Business Risk Approach, Seventh Edition, Cengage, 2010.

- **THE WALL STREET JOURNAL.**

Course Website:

<http://courses.bus.wisc.edu>

Then select AIS 630

COURSE OBJECTIVES

OBJECTIVES: Students need to develop and demonstrate:

AUDITING AND RELATED BUSINESS KNOWLEDGE

- You will be given an opportunity to gain an understanding of the theory and practice of auditing and assurance services. Auditing includes the accumulation and evaluation of evidence about a company's financial and non-financial information to make and report a judgment about the relationship between the reported information and established criteria.
- You will be given an opportunity to gain an understanding of the judgments commonly made by auditors, including judgments about the evaluation of client-related risks, the accumulation and evaluation of audit evidence, and the issuance of an appropriate report.
- You should develop an understanding of both internal and external auditing and other assurance services.
- You should understand the use of generalized audit software (GAS) in the conduct of an audit.
- You should be able to perform a risk analysis of a company and identify the implications of that risk analysis for the conduct of the audit.

CRITICAL THINKING SKILLS

- Critical thinking is a rational response to questions that cannot be answered definitively and for which all the relevant information may not be available. Critical thinking is an investigation whose purpose is to (1) analyze a problem, (2) arrive at a conclusion that integrates all available information, and (3) justify that conclusion convincingly to others. You will be given an opportunity to develop critical thinking skills by

completing case-related research tasks, group learning and interaction tasks, and written and oral communication tasks.

- You must recognize that auditing is not like most of your previous courses where you could reach a defined textbook answer. This course is aimed at developing and internalizing a model for making audit judgments. Thus, you will need to apply the concepts by engaging in critical thinking about the concepts. Memorizing concepts is not acceptable in this course.

COURSE REQUIREMENTS

To meet the course objectives, the following requirements will be made.

- **EXAMINATIONS:** There will be two mid-term exams and a final exam. The mid-term exams will be given during class, or in the evening, and the final exam will be given during finals week according to the University schedule. The format of the exams will include multiple choice questions and essays. When completing an essay question on an exam, you must take care to provide all the information that you know in a complete and organized fashion. Make-up exams will only be given for cases of *documented* emergencies or university-scheduled events.
- **PROFESSIONAL BEHAVIOR:** To foster a more professional learning environment, all participants must engage in appropriate professional behavior. Professional behavior is characterized by the following attributes: prompt arrival to class, courteous behavior in class (i.e., being attentive while others are speaking, dedicating your attention to this class while the class is in session, leaving class at the designated time, etc.), and professional preparation for class.
- To prepare for class professionally, you should read the chapter prior to class, complete assigned problems, engage in class discussion, and actively participate in group activities.
- Also consider the following additional points as you prepare for class:
 1. You should be prepared to discuss all readings and homework on the dates assigned. Homework problems will not be regularly collected but may be collected on a surprise basis. It is sufficient to outline an answer to most questions rather than writing detailed answers. The important thing is to have thought about the questions and to be prepared to discuss them. We will not have enough time to cover everything that is important in the class, so you must take the initiative to raise questions on material that you do not understand.
 2. The course will be taught primarily in a discussion mode. To get the most out of the course, you must be prepared for discussion every day. You should come to class with a list of questions on everything you do not completely understand. Formulating good questions is the essence of auditing. Since there will be points assigned based on class participation, you should come with an attitude to aggressively participate (without dominating your classmates). You cannot wait for me to call on you if you wish to maximize your performance in this class.
 3. The points for professional behavior will vary from 0-50. As a guide, a 50 will be given to a person who attends class every day, is prepared, volunteers answers (without dominating his/her classmates), and asks good questions. A 40 will be given to a person who does all of the above, but only occasionally volunteers thoughtful questions. A person who attends every day, but never volunteers an answer will get about 30 points. **Students coming to class late will lose 3 points for every time they are late. Students missing class without checking with me in advance or without a good excuse will lose 5 points for each class missed.** Lack of meaningful participation and sporadic attendance will result in 0 points.

OTHER CLASS PREPARATION SUGGESTIONS:

4. **How to Best Prepare:** First, you must recognize that auditing is not like most of your previous courses where you could reach a defined textbook answer. This course is aimed at developing and internalizing a model for making audit judgments. Thus, you will need to apply the concepts, not just memorize them. We spend 1-2 days on each chapter.
5. **How much time does it take to prepare for class?** A good rule of thumb is that you should expect to spend 2 – 3 hours of preparation time for each hour of class. That would mean that for each class you should expect to spend between 2 ½ - 3 ¾ hours of preparation time. In most situations, I recommend that the higher preparation time will be necessary every time we start a new chapter. *This means that you must plan your workload ahead as many of the new chapters start on a Wednesday.* There are some chapters where we spend only one day on the chapter. Clearly, those days will require close to the 3 ¾ hours of preparation. *Unfortunately, the public's expectations of auditors are high, and there are no shortcuts to understanding how to conduct an audit.* Your commitment to preparation will not only lead to a good grade, but will lead to a competitive advantage for you throughout your career, and especially for those who will be starting an internship next semester.
6. **Office Hours:** Please use office hours to assist you in understanding concepts you are encountering difficulty with; do not wait until an exam is given to seek assistance. I am normally in after class and am available at most other times if you make an appointment.
7. **Group Discussions** I encourage you to use group discussion or study groups to go over material. Auditing is a process of developing judgment. The more you can discuss the concepts, the better you will be at applying the concepts.
8. **E-mail:** You are welcome to contact me via E-mail, but do not use E-mail as a substitute for coming to class, or replacing a visit during office hours to make sure you understand the material in depth. It is usually preferable to see me in person rather than using E-mail, but you may find it useful to set up time for meetings, etc.
9. **Group Presentations:** I expect all group presentations to be professional. Where appropriate, I expect you will use PowerPoint or other presentation material or will prepare overheads for other students. On occasion, I might randomly select one person from each group to make the presentation and the whole group will be graded on the presentation. **Thus, it is important that everyone be fully prepared to present the material.** Each group will be required to present on Wednesdays.
10. **Course Web Page:** The course web page can be reached at:
<http://courses.bus.wisc.edu/> then search for AIS 630.

The web page will contain copies of PowerPoint presentations, suggested other readings, and a copy of a previous exam.

11. **Comment on Homework Problems:** The nature of the class is that we very seldom cover all the problems. For the most parts, I expect you to know the review questions, or can find answers in the book. But, you are responsible if you don't feel comfortable that you have an answer. You should ask in class. I generally don't post solutions, but I may on occasion. **Main Point: You are responsible for your learning. If you don't fully understand the material, you need to ask – either in class or during my office hours. Although it is true of every class, it is important you understand that auditing is about building judgment, not memorizing.** The best way to build that judgment and a successful career is to

be prepared every day, participate, and recognize the approach that you often refer to as “cold calling” is a very effective approach to building audit judgment and professional skills. I will use the method daily.

12. **Approach to Studying and Reading the Text:** There is a tendency to read textbooks and to ignore the “enrichment pieces”, such as boxed material that comes in various forms in the text. That material is integral to the understanding of auditing and is placed there to enhance your learning. Please do not skip over that material in order to shorten your preparation time.

IMPORTANCE OF PROFESSIONALISM AND ETHICAL VALUES

As part of the accounting curriculum, this course will be run under the Statement of Values that have been developed for the Five-Year Professional Program in Accounting. I expect that all work will be the work of the individual or individuals that have turned it in. I expect that all research papers have proper references and no plagiarism. Any breach of ethical conduct will be dealt with according to university regulations. However, let me make it clear that I have a strong personal conviction on the importance of professionalism and have zero tolerance for ethical lapses either in this course or in the program.

OUTSIDE PROJECT:

- We will have one major outside project this semester. The project is fairly simple. **You can pick any company that you have either worked for, or have knowledge of.** Your experience does not have to be in the accounting area. Examples of projects used in previous years include:
 - Working at a pro shop at a golf course
 - Working as wait staff at a restaurant or bar,
 - Working on the line or shipping dock of a manufacturer
 - Working in a professional services office, e.g. lawyer, doctor, etc.
 - Part-time work at the university
- The requirements for the project are as follows:
 1. Provide a broad overview of the company and its place in the industry.
 2. Identify the top 3 – 4 business risks the company faces.
 3. Identify the major elements (or lack thereof) of the company’s control environment.
 4. Pick a transaction processing cycle.
 5. Identify the major account balances that are impacted by the transactions process.
 6. Identify the major risks that will affect the correctness of processing.
 7. Provide an overview of the process and the controls in the process.
 8. Assess the quality of internal controls, identify any needed improvements in controls, or control deficiencies.
 9. Briefly describe how management might monitor those controls to determine that they are working.
 10. Identify the implications for further testing of the account balances.

You should pick a company no later than **October 11**. It is preferable that the company be one in which you have some work experience. If you do not have any work experience of any type within an organization, please see me. The assignment is due on **December 1, but can be handed in on or after Nov. 1.**

- **Length of Project.** This is not intended to be a long project. Rather the intent is to better understand internal controls by relating them to your personal work experience. As a general rule, the write-up should be 3 – 4 typewritten pages (single spaced) with an appendix that might describe the work flow (or a flow chart describing the work flow) and the identification of important controls, or control deficiencies.

GRADING POLICIES

The following points will be given for the above course requirements:

Exam 1	Chapters 1 – 5	100
Exam 2	Chapters 6 – 11	100
Final Exam	Chapters 13 – 18 (except 14), plus a cumulative component	150
Outside Project	Internal Control	75
Quizzes, Homework, and Cases	Approximate	75
Class Participation	Based on criteria above	50
Wall Street Journal	Identification of pertinent issues and discussion of issues in the WSJ that are relevant to business and to the profession. Note: This is the only way to earn extra credit for the course.	Up to 20 extra points not figured below.
Total Points		550

**AIS 630 Assignments
Fall 2010**

[Bold] Indicates problems to be handed in. All the hand-in assignments should be typed.

<i>Date</i>	<i>Topic</i>	<i>Chapter</i>	<i>Problems</i>
Sept. 8	Auditing and Assurance Services: The Challenge to you and the Challenge to the Profession		Overview of changes in the profession. Outline of course. Discussion of initial assignment due next class.
Sept 13	Nature of the Audit Profession, and an overview of the Audit Process	1	1,2,3,6,25,41,47 In-Class Group Discussion of Auditing Revenue at Ford Motor Company
Sept 15	The Internal Audit Profession; Audit vs. Assurance Services, Regulatory Activities	1	17,48, 53 I will randomly ask a couple of you to present your analysis of problem 53 – which can be done alone or in a group.
Sept 20	Corporate Governance & Audits: Serving the Public's Needs	2	6,7,24,48,50,52,53
Sept 22	The Audit Committee, PCAOB and IAASB, and Corporate Governance	2	25,31,36,55,60 Ford and Toyota Exercises. In groups of your choosing, address questions 3d, 3f, 4b, and 5b – f. To be handed-in, parts 5c, 5d, 5e, and 5f (as a group) . Explain what might cause the audit fees for Ford and Toyota as a percentage of revenue and assets to differ so much.
Sept 27	ETHICS – The foundation of the profession Focus on Auditor Independence	3	1, 5,14,36, 47,50
Sept 29	ETHICS: Making Decisions on Ethical Issues <i>Early Career Management: Guest Speakers: Emily Takkunen and Kristen Kaiser (IMacc Grads), both with General Mills. They will speak on their experience with corporate cultures and ethical climates, and provide time to answer questions regarding early career management.</i>	3	39, 42 Article: Chambers – Beyond Bean Counting

Oct 4	RISK; Audit Risk and Business Risk Why is it important that auditor's be able to assess risk?	4	1, 2, 16, 18, 24, 44, 47, 48
Oct 6	RISK: Applying the audit risk model – conceptual components.	4	52, 56 (to be handed in) , 59 (group project in class to also be handed in). Article: The internal auditor's role in monitoring risks. ON website.
Oct 11	INTERNAL CONTROL OVER FINANCIAL REPORTING	5	4, 5, 9, 39, 40, 46, also the set of questions regarding Ford and Toyota on p. 249
Oct 13	INTERNAL CONTROL: Evaluating application and computerized controls, testing for the operational effectiveness of controls.	5	47, 51 hand-in (select your group and – with my permission, select one of the companies, and report on how they work), 52
Oct 18	Exam #1		Exam will be given during the class period and will not be returned until October 25.
Oct 20	PERFORMING AN INTEGRATED AUDIT. Understand the PCAOB's initiative towards integrated audits, as well as the advantages and potential disadvantages of an integrated audit.	6	2, 4, 7, 11, 21, 39,41 Answer the Ford and Toyota Questions (p. 280) and be prepared to discuss. 36 Group Exercise on Accounting Estimates (in class) ,
Oct 25	PERFORMING AN INTEGRATED AUDIT	6	38, 45, 46
Oct. 27	AUDIT EVIDENCE: A FRAMEWORK	7	1, 2, 13, 17, 21, 29, 35,40, 45
Nov 1.	AUDIT EVIDENCE, WRAP UP AND APPLICATION TO PRACTICE	7	Group Discussion – hand-in before class, the Ford and Toyota questions. 48,49, 52
Nov. 3	TOOLS TO GATHER AUDIT EVIDENCE	8 Concentrate on sampling material	1, 2, 3, 8, 17, 36, 38, 42
Nov. 8	TOOLS TO GATHER AUDIT EVIDENCE.	8	45, 48, 55

	<p>Today we will focus on Monetary Unit Sampling, GAS, and Analytical Procedures as we wrap up this chapter.</p> <p>Potential Guest Speaker: Trent Gazzaway, national director of auditing for Grant Thornton</p>		
Nov. 10	Computer Audit Techniques, Introduction to Auditing for Fraud	8 9	52,53 63, 41
Nov 15	AUDITING FOR FRAUD Understanding Audit Responsibilities and Approaches	9	3, 4, 10, 15, 25, 47 48, 49 [Answers handed in after group discussion], 55
Nov 17	AUDITING REVENUE AND RELATED ACCOUNTS. Improper revenue recognition has been associated with fraud and with misstated financial statements. The SEC says that revenue recognition should always be considered high risk.	10	4, 6, 9, 20, 37 Ford and Toyota, answer and hand in, 1b, 5 54, 57
Nov 22	AUDITING REVENUE AND RECEIVABLES We focus on the audit of receivables today, but take a close look at an audit failure by a partner with Arthur Andersen	10	55, 79, 76, 83
Nov. 24	<p>EXAM 2</p> <p>My suggestion is that we schedule the exam for Monday or Tuesday evening, pending schedules for each of you and then not meet on Wednesday.</p>		
Nov 29	AUDIT OF ACQUISITION AND PAYMENT CYCLE We will focus primarily on the audit of inventory, but will also cover the audit of expenses. For this session, we will focus on the overall approach.	11	1, 6, 9, 20, 31, 56, 59, 62, 75
Dec. 1	INVENTORY AND FIXED ASSETS	11 13 (p. 662 – 671)	68, 71, 81 35, 42
Dec 6	COMPLETING THE AUDIT. All of the topics are important; we will focus on ‘going concern problems’ and auditing for subsequent events.	15	2, 3, 11, 34, 36, 40
Dec 8	AUDITOR’S REPORTS. We will focus on the traditional audit reports, and discuss compilations and reviews on Wednesday	16	Answer the Ford and Toyota Questions. 1, 2, 16, 17, 38, 41, 42, 47,
Dec 13	AUDITOR COMMUNICATION. Focus on audit reports, reviews, and compilations.	16	49, 52, 53

	Time permitting, I will provide a wrap-up discussion of issues that affect the auditor's legal liability.		
Dec 15	COMPLEX AUDIT JUDGMENTS, and wrap up and review for Final	18	Answer the Ford and Toyota Questions 3a, 3b, 3c. 32, 38, 42, 43
Dec 17	FINAL EXAM: 7:25 – 9:25 p.m.*		Place to be determined.

* Note, I cannot move the date of the final.