AIS 630  
Auditing and Assurance Services Version 1.0  
Fall 2009

Professor Brian W. Mayhew, Ph.D., C.P.A.  
Office: 4297 Grainger Hall

Office Hours: W 3:45 – 4:45pm, or by appointment

E-mail: bmayhew@bus.wisc.edu

Class Meeting Schedule:  
2:30 - 3:45pm MW 2170 Grainger

Required Materials:
- THE WALL STREET JOURNAL or equivalent.

SYLLABUS OVERVIEW AND PURPOSE

This syllabus provides an overview of the planned course coverage and administration during the Fall 2009 semester. All good plans must leave room for change to adjust to circumstances as they arise. Accordingly, this syllabus should not be viewed as a binding contract between the students and the professor. Instead, it provides a basic plan to achieve the course objectives. The instructor reserves the right to change the syllabus as needed. Nonetheless, the instructor accepts the responsibility to communicate such changes in the timely manner. An up-to-date version of the syllabus will be provided via the course website, and major changes will be announced in class and/or via email. Students are strongly encouraged to visit the course website regularly and to check their email daily. The professor will use a campus supplied email list to communicate. Students should be sure they have their current email account on record with the university.

The university has expressed concerns about the H1N1 virus and the potential for an epidemic during fall 2009 semester. The university has advised all instructors to prepare for a potential university shut-down dictated by the state or CDC should an epidemic break out. The professor has made tentative plans to conduct this course online rather than in person should it become necessary. The course presented in this syllabus is designed for in-person delivery of material and in-class interaction. The course will not be able to achieve its objectives as effectively online. Nonetheless, the course can be delivered online, and still achieve its main objectives. All students should consider whether they would be able to access the internet if an epidemic severely limits public access (e.g. what if the libraries or public computer labs are not available?). I also ask that if you are sick that you stay home. Generally, this means a fever over 100 degrees with cough and/or sore throat. The university asks that you try to stay home until 24 hours fever free. I encourage you to familiarize yourself with the UW flu information at http://flu.wisc.edu/ to limit the spread of infectious disease. I will try to work with any of you who experience health challenges this semester. I will use email and the website to communicate about these issues.

COURSE OBJECTIVES

LEARNING OBJECTIVES:

Each student in the course will strive to meet the following learning objectives.
AUDITING AND RELATED BUSINESS KNOWLEDGE

- Explain in your own words what an audit is.
  - Compare and contrast internal and external auditing and other assurance services.
  - Describe the current audit market including the main providers of audit services and the regulatory bodies that oversee auditing.
  - Explain in your own words the difference between free market auditing, regulated auditing and government run auditing.
  - Discuss the similarities and differences between assurance and insurance.
  - Explain an auditor’s role in corporate governance including identifying other components of effective corporate governance.

- Explain in your own words why an audit of financial statements is important and how it adds value to a company and society.
  - Explain in your own words the tow main problems that arise from information asymmetry and how an audit helps address each of those problems.
  - Compare and contrast the purposes of a stewardship and information audits.
  - Compare and contrast financial reporting with and without financial statement audits.
  - Explain in your own words why auditor independence is critical for the auditor to add value to clients and the public.
  - Identify key threats to auditor independence and how regulators attempt to address these threats.
  - Compare and contrast audit requirements for public companies and private companies. Identify the key reasons for the differences.

- Explain in your own words how to conduct an audit.
  - Describe the judgments commonly made by auditors.
  - Describe in your own words the strategic interaction between the auditor and client including an assessment of the incentives of both parties.
  - Describe the conduct of an integrated audit and the linkage between internal controls, control testing and substantive testing of balances.
  - Evaluate client-related risks and plan the accumulation and evaluation of audit evidence based on evaluation of client risk.
  - Apply analytical procedures to planning, conducting and completing an integrated audit.
  - Compare and contrast differences in audit reports and opinions.
  - Apply generalized audit software (GAS) in the conduct of an audit task.

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.
  - There is no more important question that “Why?” and seldom will it be sufficient to accept the first reason given as the answer.

Auditing is not like most of your previous courses where you can often reach a clear-cut, textbook answer. This course is aimed at developing and internalizing a model for making audit judgments. You will need to apply the concepts by engaging in critical thinking about the concepts. You will have trouble succeeding if you focus on memorizing material rather than developing an understanding of the key concepts.
COURSE REQUIREMENTS

The following requirements will be used to evaluate student achievement of the course objectives,

- **Examinations:** There will be two mid-term exams and a final exam. The mid-term exams will be given during class and the final exam will be given during finals week. The format of the exams will include multiple choice questions and essays. When completing an essay question on an exam, you should be careful to provide relevant information in a complete and organized fashion. Make-up exams will only be given in emergency cases (H1N1 concerns apply).

- **Internal Control Analysis:** AIS 630 will include one extensive written case assignment that will be completed outside of class. Shorter case assignments will be discussed during class to illustrate concepts. This project is an *individual* project. The internal control project will be worth **75 points**.

- **Current Events** – Auditing requires that you build and maintain a set of expectations with respect to your client’s financial reporting. These expectations arise from your understanding of the business environment in general and specifically in your clients’ industries. Business periodicals such as *The Wall Street Journal*, *Business Week*, or *Barrons* (and their on-line equivalents) are an excellent sources of general business information. I encourage you to get a subscription at the very low prices offered to students and to read one of these regularly. You may want to focus your readings on a few key industries where you have an interest. To reward you for your efforts, you may earn up to 20 additional points for raising current event topics to the attention of the class. The student raising the event to the class should be prepared to provide a brief description of the event and why it is important to business and to auditors. We will set time aside on Wednesdays for such discussions.

- **Outside Professional Activities and Research Assistance** – I encourage students to participate in activities beyond the classroom. I believe every student should belong and participate in one of the accounting clubs on campus including Beta Alpha Psi (BAP), or the Institute of Management Accountants (IMA). I also encourage students to participate in research studies sponsored by the accounting department or school of business. Such studies help enhance the reputation of the department and university which will increase the value of your future degree. The University of Wisconsin-Madison School of Business has a website that allows students to sign up for studies being conducted in the school. Many of these studies pay cash for participation. To sign-up as a potential participant and receive emails about opportunities to participate in studies, go to: [http://uwsob.sona-systems.com](http://uwsob.sona-systems.com).

PROFESSIONAL BEHAVIOR

To foster a 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. The following points will aid your preparation for class:

1. **You should be prepared to discuss all readings and homework on the dates assigned.** Homework problems will be collected from time-to-time, and sometimes 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 communicating in a timely manner with me 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. You need to apply the concepts, not just memorize them. We spend 1-2 days on each chapter.

5. **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 via email.

6. 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.

7. **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.

8. **Group Presentations:** I expect all group presentations to be professional. Where appropriate, I expect you will use PowerPoint or other presentation material. All members of the group should participate in the presentation.

9. **Course Web Page:** The course web page can be reached through your MyUW account. You can also find it through http://courses.bus.wisc.edu/ be sure to look for Professor Mayhew’s section.

10. **Comment on Homework Problems:** We will seldom cover all the problems. For the most parts, I expect you to find answers to the review questions 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.** I especially encourage you to ask questions in class. You will find that your fellow students have similar questions. 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
judgment situations. “Cold calling” is a very effective approach to building audit judgment and professional skills. I will use this method regularly.

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. It is very important that you have some actual knowledge of the company (or organization). You cannot use public companies unless you actually worked for the company. 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 nature 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. 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, i.e.

You should pick a company no later than the fourth week of class. 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.

BUDGETING TIME: It is important to get started on the outside risk analysis early. Otherwise, the end of the semester will get very busy.

The Project is Due on or before November 25 (just prior to Thanksgiving).

IMPORTANCE OF PROFESSIONALISM AND ETHICAL VALUES

As part of the accounting curriculum, this course will be run under the Statement of Values developed for the Five-Year Professional Program in Accounting. I expect that the individual or individuals who submit the work are the same individuals who produced the work. 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.

Below is the Statement of Values that has been developed by the students in the Five-Year Professional Program in Accounting. It should serve as a model for your commitment to ethical values.

**Student Commitment and Statement of Values**

**Five-Year Professional Program (circa Fall 2006)**

As students in the University of Wisconsin Accounting Program we understand the need for an ethical environment fostering education, truth, honor, integrity, courage, and support within our profession. How we conduct ourselves in our studies will shape the way we behave throughout the rest of our lives. With this in mind we have created this Statement of Values to guide us in our conduct and to maintain the reputation of the program and the accounting
profession. The success of this program relies on the cooperative efforts of the students and faculty in adherence to the Statement of Values. Our core values are:

**Education**
- we acknowledge that our education is an important foundation for continuing growth in the learning process; therefore, we will accept responsibility and challenge ourselves, our classmates, and the faculty in the pursuit of knowledge and a strong intellectual foundation

**Truth**
- as future professionals within the accounting community, we understand the importance of remaining true and honest in all that we do and vow to illustrate this through our actions

**Honor**
- we will take pride in ourselves and our profession and vow to represent our university as 5 Year Professional Accounting Program graduates confidently

**Integrity**
- we will be accountable for our actions and will conduct ourselves at the highest levels of ethical conduct
- we will uphold the highest standards of trust and confidence placed in our profession

**Courage**
- we will have the courage to stand up for what is right
- we will have the courage to admit our mistakes and to challenge the work of others
- we will do the right thing, in the right way, for the right reasons

**Support**
- as 5 Year Professional Accounting Program students, we will remain supportive of our fellow classmates to always uphold ourselves to the highest standards, especially when confronted with ethical dilemmas
- we will support and abide with all rulings (present and future) set forth by the ethics board

**GRADING POLICIES**

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

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exam 1 (Chapters 1,2,4,5)</td>
<td>100</td>
</tr>
<tr>
<td>Exam 2 (Chapters 6 – 10, 3)</td>
<td>100</td>
</tr>
<tr>
<td>Final Exam (Chapters 11,12,15,16 plus a cumulative component)</td>
<td>150</td>
</tr>
<tr>
<td>Outside Project (Internal Control)</td>
<td>75</td>
</tr>
<tr>
<td>Cases and Homework (approximate, including ACL project)</td>
<td>75</td>
</tr>
<tr>
<td>Class Participation (Based on criteria above)</td>
<td>50</td>
</tr>
<tr>
<td>Wall Street Journal (Identification of pertinent issues and discussion of issues in the WSJ that are relevant to business and to the profession. Up to 20 extra points not figured below.)</td>
<td>550</td>
</tr>
</tbody>
</table>

**IMPORTANT NOTICE ABOUT CLASS SCHEDULE:** The tentative class schedule follows. The instructor reserves the right to change the schedule as needed to achieve the course objectives. Students will be informed of such changes in class, and are responsible for the changes. Updated information will be posted at the course website to and communicated via email to enhance communication.
<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Chapter</th>
<th>Problems</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sept. 2</td>
<td>Introduction to Course</td>
<td></td>
<td>Outline of course</td>
</tr>
<tr>
<td></td>
<td>What is an Audit from 10,000 feet?</td>
<td></td>
<td>Stewardship Case – in-class</td>
</tr>
<tr>
<td></td>
<td>What comes first: Why or How?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sept 7</td>
<td>Labor Day</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sept 9</td>
<td>Jumping off the deep end: How to Audit Revenue?</td>
<td>Pgs.468-473</td>
<td>In-Class Case – How Should We Audit Revenue?</td>
</tr>
<tr>
<td></td>
<td>Overview of Revenue Cycle</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>What do we do to audit revenue?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sept 14</td>
<td>The Public Accounting Profession</td>
<td>1</td>
<td>1,4,6,11,38,40,47 all MC</td>
</tr>
<tr>
<td>Sept 16</td>
<td>Audit vs. Assurance Services, Regulatory Activities</td>
<td>1</td>
<td>Hand-in 53 (part c) a one or two page summary is sufficient. Q’s from The Demand for Auditing</td>
</tr>
<tr>
<td></td>
<td>The Demand for Auditing</td>
<td>The Demand for Auditing</td>
<td>Q’s from The Demand for Auditing</td>
</tr>
<tr>
<td>Sept 21</td>
<td>The Demand for Auditing (Continued)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sept 23</td>
<td>Corporate Governance &amp; Audit Professionalism: Serving the Public’s Needs</td>
<td>2</td>
<td>1,6,7,8,52,56,57 MC</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sept 28</td>
<td>RISK: Audit Risk and Business Risk</td>
<td>4</td>
<td>2,11,16, 18, 43,47, 48, 52</td>
</tr>
<tr>
<td></td>
<td>Why is it important that auditor’s be able to assess risk?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sept 30</td>
<td>RISK: Applying the audit risk model – conceptual components, Analytical Procedures</td>
<td>4</td>
<td>56, 59 both hand in</td>
</tr>
<tr>
<td>Oct 5</td>
<td>RISK: Applying the audit risk model – conceptual components.</td>
<td>4</td>
<td>60 hand in, 62 in class</td>
</tr>
<tr>
<td>Oct 7</td>
<td>INTERNAL CONTROL: Understanding the concepts of internal control and required reporting.</td>
<td>5</td>
<td>2,5,8,9,44, 52,54</td>
</tr>
<tr>
<td>Oct 12</td>
<td>INTERNAL CONTROL: Testing controls, how do we do it and how do we determine deficiencies? Linking control weaknesses to remaining audit procedures.</td>
<td>5</td>
<td>46, 61, 51 in group and hand in</td>
</tr>
<tr>
<td>Oct 14</td>
<td><strong>Exam #1</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oct 19</td>
<td>Hand Back Exam</td>
<td>6</td>
<td>2,4,9, 20,21, 34, 39</td>
</tr>
<tr>
<td>Date</td>
<td>Topic</td>
<td>Texts Required</td>
<td>Due Date</td>
</tr>
<tr>
<td>------------</td>
<td>-----------------------------------------------------------------------</td>
<td>------------------------------------</td>
<td>-----------------------------------</td>
</tr>
<tr>
<td>Oct. 21</td>
<td>PERFORMING AN INTEGRATED AUDIT</td>
<td>6</td>
<td>41, 45, 46 Hand in both</td>
</tr>
<tr>
<td>Oct. 26</td>
<td>AUDIT EVIDENCE: A FRAMEWORK. Understanding Assertions and Nature of Audit Evidence.</td>
<td>7</td>
<td>1, 3, 17, 21, 35, 39, 44 MC</td>
</tr>
<tr>
<td>Oct. 28</td>
<td>AUDIT EVIDENCE: Applying the Framework</td>
<td>7</td>
<td>12, 13, 45, 48, 52</td>
</tr>
<tr>
<td>Nov 2</td>
<td>AUDITING FOR FRAUD Understanding Audit Responsibilities and Approaches</td>
<td>9</td>
<td>3, 4, 5, 10, 15, 48, 55, 49 Hand in after Group Discussion</td>
</tr>
<tr>
<td>Nov 4</td>
<td>TOOLS FOR GATHERING EVIDENCE: Attribute Sampling: Testing for Control Effectiveness.</td>
<td>8</td>
<td>1, 2, 3, 17, 36, 38, 42</td>
</tr>
<tr>
<td>Nov 9</td>
<td>TOOLS FOR GATHERING EVIDENCE Substantive Sampling: MUS and Non Statistical Sampling</td>
<td>8</td>
<td>Professor Rittenberg to teach class 8, 14, 45, 48, 51, 55</td>
</tr>
<tr>
<td>Nov 11</td>
<td>AUDITING REVENUE: Internal Controls Over Revenue Using ACL to accomplish audit objectives.</td>
<td>10</td>
<td>6, 8, 12, 15, 31, 49, 57, 78, 79 hand in 78 on November 16</td>
</tr>
<tr>
<td>Nov 16</td>
<td>INTERNATIONAL ISSUES: Auditing Revenue at an International Client</td>
<td>10</td>
<td>Case Materials</td>
</tr>
<tr>
<td>Nov 18</td>
<td>ETHICS – The foundation of the profession</td>
<td>3</td>
<td>3, 4, 6, 9, 34, 44, 45, 47</td>
</tr>
<tr>
<td>Nov 23</td>
<td>Exam #2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nov 25</td>
<td>Work Day – Complete and Hand In Internal Control Case</td>
<td>Read Chapters 11 and 12</td>
<td>Internal Control Case Due</td>
</tr>
<tr>
<td>Nov 30</td>
<td>Hand Back Exam INVENTORY: Focus on substantive tests of inventory.</td>
<td>11</td>
<td>1, 4, 9, 14, 20, 21, 56, 66</td>
</tr>
<tr>
<td>Dec. 2</td>
<td>INVENTORY: Focus on substantive tests of inventory.</td>
<td>11</td>
<td>62, 65, 67 Hand In</td>
</tr>
<tr>
<td>Dec 7</td>
<td>CASH: Audit of Cash and Related Accounts</td>
<td>12</td>
<td>1, 6, 7, 16, 37, 45</td>
</tr>
<tr>
<td>Dec 9</td>
<td>COMPLETING THE AUDIT: Focus on Subsequent Events and Reviewing for Audit Quality</td>
<td>15</td>
<td>1, 2, 3, 9, 11, 14, 32, 36, 40</td>
</tr>
<tr>
<td>Dec 14</td>
<td>AUDITOR REPORTS: Focus on audit reports, reviews, and compilations Review for Final Exam</td>
<td>16</td>
<td>1, 2, 13, 42, 52, 53</td>
</tr>
<tr>
<td>Dec 19</td>
<td>FINAL EXAM: 7:25 – 9:25 p.m.</td>
<td></td>
<td>Place to be determined.</td>
</tr>
</tbody>
</table>
Websites:
www.pcaobus.org
www.sec.gov
www.coso.org
www.pwc.com
www.kpmg.com
www.deloitte.com
www.ey.com
www.wipfli.com
www.gao.gov
www.aicpa.org
www.cfenet.com/home
www.isaca.org
www.theiia.org
www.csgrr.com
www.cengage.com/accounting/rittenberg