THE UNIVERSITY OF TEXAS AT AUSTIN

ACC 362 Auditing and Control

Course Syllabus Fall 2012

Time and Location

MW 2:00 – 3:30 p.m., UTC 1.144 (unique no. 02775)

Instructor

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"Blackboard" and the Discussion Board

We will use the web-based University of Texas at Austin "Blackboard" (Bb) software extensively, including its discussion board. To access Blackboard, go to http://courses.utexas.edu or follow the links from other University websites.

The discussion board benefits all of us. You can use it to post questions, comments and responses to others' posts. If you have a question or comment of general interest (i.e., not a personal matter), please use the discussion board, not e-mail.

I will also use Blackboard to post announcements and course materials. *Please check Blackboard frequently and before every class*.

Enhancing the Enjoyment of this Course

I prefer an informal classroom, as I have found such an environment to be more enjoyable and conducive to student attendance and participation. I very much hope you will let me know during class if you have a question, comment or response. *In this class, silence is not golden!*

Please assist me in maintaining a positive, productive learning environment by showing courtesy and respect for your fellow students (and me). To that end, *please make all reasonable efforts to be on time to class*. Also, please respond to your fellow students' remarks (in class and on Bb) in a courteous and respectful manner, as you would in a professional setting.

In my experience as an instructor and student, use of electronic devices by students in class is disruptive and unnecessary. Accordingly, *please turn your laptop*, *Blackberry*, *iPhone and other cell phones and devices off before class begins*. PowerPoint slides for each lecture will be available under "Course Documents" on Blackboard before class. I recommend that you print out the slides (4 or 6 to a page) before each class and write your notes in the margins or space provided as we cover the material. The one exception to the "no laptop" rule will be when the ACL software is introduced. At that time I will encourage those of you with laptops to bring them to class.

Finally, I hope you will give me feedback during the semester. You will, of course, have a formal opportunity to do so via the end-of-semester Course Instructor Survey, but I hope you will stop by and see me during the semester if there are things you especially like or do not like about the course.

Required Course Materials

Course files. As noted above, I will provide PowerPoint slides, supplemental non-textbook readings, cases and other files that we will use in the course. These files will be available on Blackboard. These materials do not substitute for class itself, so it is important to attend each class session.

Auditing: a Business Risk Approach, 8th ed., by Rittenberg, Johnstone and Gramling (South-Western, 2012, 2010).

Note: New texts come bundled with a CD-Rom containing the educational version of ACL audit software. *You will need this software for a required case later in the semester, so please keep it in a safe place.* The international (soft cover) version of the text may not include the ACL software and may differ from the hard cover version in certain respects, although students have informed me that the substantive content is the same.

Course Objectives

At the end of the semester, you will have a better understanding of the following:

- 1. The importance of auditing and other assurance services to the global economy.
- 2. The crucial role of auditing in effective corporate governance.
- 3. The Sarbanes-Oxley Act of 2002, the Public Company Accounting Oversight Board, and auditing standards applicable to public and private company audits.
- 4. Auditor independence and ethical responsibilities.
- 5. The risk-based approach to auditing and the many types of risk relevant to auditors.
- 6. The need to gather sufficient, competent audit evidence.
- 7. Internal controls and the integrated audit.
- 8. The basics of audit sampling.
- 9. The basic framework for auditing a company's revenue and purchasing cycles.
- 10. Audit considerations for related entity transactions.
- 11. Effective interviewing techniques and other means of dealing with potential fraud.
- 12. Using computerized audit software.
- 13. End-of-audit issues and procedures.
- 14. Reporting audit findings.
- 15. Issues arising in accounting and auditing scandals.

Grading

Course grades will be based on a 500-point scale, as follows:

	Point	s Possible
Examination 1, Wednesday, September 26	75	(15%)
Examination 2, Monday, October 22	100	(20%)
Final examination, Saturday, December 15 (tentative)	125	(25%)
Cases (4)	100	(20%)
Group presentation	50	(10%)
Participation	50	(10%)
Total possible points	500	(100%)

I do not have any fixed point or percentage cut-offs in mind regarding letter grades, nor do I have a fixed curve requiring that certain percentages of students will get A's, A-'s, B+'s, B's, etc. I will make grade determinations at the end of the semester based on both absolute and relative performance considerations. Please note that the University has instituted a plus/minus grading system for undergraduate courses.

As students are naturally curious about where they stand during the semester, I will endeavor to give the class an interim assessment of performance after the two midterms have been completed. However, any mid-semester indications of course performance are merely to assist you in evaluating your performance to date and achieving your goals in this course. They are not guarantees or suggestions that you will receive any particular final grade in this course.

Each graded component is described below:

Examinations (two midterms worth 75 and 100 points, respectively; final exam worth 125 points)

Examinations will emphasize concepts and issues discussed in class, although any material from assigned readings is "fair game" for testing. Exams will contain a mixture of objective (multiple choice and true-false), short-answer and essay questions. I will provide additional exam-related information approximately three class periods prior to each exam.

The second midterm examination will test material covered following the first midterm examination. The final examination will emphasize material covered after the second midterm. I will identify the material to be covered prior to the final exam. Of course, as the material in this course builds on previous concepts, each examination will be "cumulative" in the broad sense of that term.

Cases (100 points)

To refine your writing skills and your ability to analyze more realistic and less structured problems in auditing, there will be three graded case exercises based on real-world examples that have been adapted for teaching purposes. There will also be a set of graded "mini-cases" that will give you familiarity with ACL computer audit software, which is used in audit practice. Cases will be posted on Blackboard under "Assignments" at least ten days before their respective due dates.

All cases (except the ACL cases) will be graded for breadth and depth of analysis, quality of writing and professional impression. Certain questions will involve subjective issues for which there may be no "right answer" and multiple views can be defended. *It is important to be both complete and concise in your case analyses and to justify your positions and conclusions.* Do not repeat or summarize the case facts, except as needed to support a position. *Your case analyses will be limited to three pages each and must be double-spaced, use a font no smaller than 10 and have left and right margins of at least 1" (deductions will be made for deviations from these requirements).* The ACL cases will be graded for completeness, accuracy and professional documentation.

In the formative stage of a case assignment, you are welcome to discuss the case with fellow students in the class (but *not* with persons not in the class), including on the Bb discussion board. A separate forum will be available for postings regarding each case. *However, copying from another student's prepared solution is scholastic dishonesty, and will be penalized severely.* See "Policy on Scholastic Dishonesty" later in this syllabus for clarification. *My intention is not that students will jointly prepare cases, but rather have the ability to clarify case issues before preparing their solutions independently.*

The assigned cases, their tentative point allocations and due dates are listed on the next page.

8/20/2012

Cases, continued

Case	Source	Topic	Due Date
1. MHA Textiles (15 points)	PwC Case Series (2005)	Dealing with client requests	Mon., Sept. 17
2. Waste Disposal, Inc. (25 points)	Adapted from a case by Ragothaman, Wilcox and Davies (American Accounting Association, 2003)	Evaluating risks in audit planning	Wed., Oct. 3
3. Third case to be announced (30 points)			Mon., Oct. 15
4. ACL Mini-Cases (30 points) •ACL Case 1, Appendix p. 928 •10-78 (pp. 579-580) •11-81 (pp. 655-656) •8-51 (p. 434)	Text + ACL	Using computer audit software to analyze client records	Mon., Nov. 12

We will discuss the first three cases in class. Discussion of cases is an important part of the course, *so please be prepared to discuss and defend your positions in class* (see "Participation and Attendance," below).

As noted above, the quality of your writing and professionalism will be components of your (non-ACL) case grades. If you would like assistance with your writing, see "Undergraduate Writing Center," below.

Group Presentation - "Pick a Scandal" (50 points)

The capstone project at the end of the semester will be a group project. Each group will choose an accounting / auditing scandal and investigate (1) the underlying accounting issue(s) or nature of any accounting fraud, (2) why the audit failed to uncover the problem and what might have been done differently, and (3) the consequences for management and the auditors. Groups will present the results from these investigations in presentations at the end of the semester (see "Course Schedule," below). Further details on this project and a list of suggested scandals will be provided later in the semester.

Participation and Attendance (50 points)

Your active participation will make this course substantially more enjoyable (for you and me) and significantly enhance the clarity of points discussed in class. Moreover, the ability to provide meaningful input in a professional setting is a critical element of career success. Thus, to give you an incentive to attend and participate, 50 points will be based on your cumulative participation in this class.

To earn points for participation:

- Ask and answer questions and offer insights in class.
- Post questions and insights to the class discussion board.
- Answer others' posts on the discussion board.
- Show interest in other groups' presentations at the end of the semester by asking questions.
- Help promote an enjoyable and productive classroom and course.

Some of you will participate more effectively in class, and others will participate more effectively on the discussion board. Both kinds of participation are helpful, although I weight classroom participation more heavily. To earn all of the participation points available, meaningful classroom participation is necessary. *In reviewing student performance from past semesters, I have observed a strong positive correlation between students' final grades and their participation scores.*

I do not "micromanage" participation or expect that you will contribute in every class. Your levels of interest and preparation will frequently dictate your participation in a given class. Assessing participation at the conclusion of the course requires my subjective judgment, but you can trust me to do my best to form a fair assessment over the semester of your participation and contribution to the course.

I expect that you will attend class regularly. Although I will not take attendance each class, I will have a sense of those students who are and are not regularly attending class. Repeated absences may result in a reduction of your Participation score. *In addition, I may take attendance from time to time, which may or may not be announced in advance.* Attendance will be required for all group presentations. Attendance on days when attendance is taken will also be considered in determining Participation scores.

If you have a concern about this (or any other) aspect of your grade, please come by during office hours or make other arrangements to see me. I will be happy to provide suggestions on how you might improve your performance in the course.

Discussion Board

Along with other features of Blackboard, I strongly encourage you to take advantage of the discussion board for this course. Postings can relate to class discussions, case issues, exam-related matters, current events, careers or any other topics/issues that are relevant to this course. I monitor the discussion board on a regular basis, and will reward participation as noted above.

Ground rules for discussion board:

- 1. For questions or comments of general interest to the class, please use the discussion board, not e-mail! Although I may respond to a personal e-mail regarding a matter of general interest to the class, I do not consider e-mails in determining participation grades. More importantly, your classmates will not receive the benefit of your questions and insights or any responses thereto.
- 2. Be professional and courteous. Discussion boards of this type are used throughout the business world. You do not need to be overly formal, but forums such as this offer a good opportunity to practice professional business communication.
- 3. Do not be a free rider. If you benefit from reading other's postings, consider adding your own insights. Also reply to inquiries from your fellow students. Student replies are usually very helpful and often are posted before I have a chance to respond (particularly if they are made late in the evening).
- 4. Even if you have nothing to post, please get in the habit of accessing the discussion board regularly. I will often use Blackboard to communicate important announcements and clarifications.
- 5. I may establish special forums within the discussion board for exams and cases. To maximize the usefulness of your posting, please use the most appropriate forum. For example, if you have a question concerning a suggested homework problem in the days leading up to an exam, post that question in the forum for that exam.

Blackboard downtimes and course requirements:

As with all computer systems, there are occasional scheduled downtimes and unanticipated interruptions of the Blackboard system. Notification of these disruptions will be posted on the Blackboard login page. Scheduled downtimes are **not** an excuse for turning in a case late or failing to timely complete other course requirements. However, if there is an unscheduled downtime for a significant period of time, I will make an adjustment if it occurs close to the due date. As downtimes are often unpredictable, I advise you to print out cases and instructions as soon as they are available.

Homework

Each chapter in the text is followed by multiple choice and other problems that you can complete for practice. Some of these problems reinforce concepts discussed in class, others address matters not discussed in class, and certain problems were former CPA exam questions. As homework, I suggest that you complete the *multiple choice* problems at the end of each *full* chapter we cover. Solutions will be posted under "Course Documents."

Homework is voluntary and will not be collected. Hence, homework does not technically count as part of your course grade. *However, I will consider the assigned multiple choice problems when I prepare each examination, i.e., some exam questions may be very similar or identical to homework problems.* I expect that students who put diligent effort into the homework will do better on the examinations.

Policy on Missed Examinations and Assignments

In general, medical emergencies, family emergencies and university-sponsored conflicts are the only valid reasons for missing an examination or the due date of a case. In all such instances, I require some form of supporting documentation, such as a signed note from a physician. At that point I will decide the best make-up alternative on a case-by-case basis, which could mean a make-up exam or recalculating the semester grade to omit the missed component, depending on the circumstances. In the case of a conflict due to a university-sponsored event, you must notify me as soon as you are aware of the conflict and *before* the examination date or assignment due date. *An interview or office visit is not a valid reason to miss an examination or an assignment due date.*

Religious Holidays

Religious holy days sometime conflict with class and examination schedules. If you miss an examination or case due to the observance of a religious holy day, then you will be given an opportunity to complete the work missed within a reasonable time *after* the absence. It is the policy of the University that *you must notify me at least fourteen (14) days prior to the classes scheduled on the dates you will be absent* to observe a religious holiday.

Policy on Students with Disabilities

The University strives to accommodate qualified students with disabilities. For more information, contact the Office of the Dean of Students at 471-6259, 471-4641 TTY. If you are a qualified student with a disability, please see me to discuss any appropriate accommodations that have been recommended for this course and I will do my best to help. http://www.utexas.edu/diversity/ddce/ssd/

University Electronic Mail Notification Policy

All students should become familiar with the University's official e-mail student notification policy. It is the student's responsibility to keep the University informed as to changes in his or her e-mail address. Students are expected to check e-mail on a frequent and regular basis in order to stay current with University-related communications, recognizing that certain communications may be time-critical. It is recommended that e-mail be checked daily, but at a minimum, twice per week. The complete text of this policy and instructions for updating your email address are available at: http://www.utexas.edu/its/policies/emailnotify.html.

Electronic Class Roster and Student Privacy

The University has requested that students be notified of their privacy rights in regard to electronic class rosters:

Password-protected class sites will be available for all accredited courses taught at the University. Syllabi, handouts, assignments and other resources are types of information that may be available within these sites. Site activities could include exchanging e-mail, engaging in class discussions and chats, and exchanging files. In addition, class e-mail rosters will be a component of the sites. Students who do not want their names included in these electronic class rosters must restrict their directory information in the Office of the Registrar, Main Building, Room 1. For information on restricting directory information see: http://www.utexas.edu/student/registrar/catalogs/gi06-07/app/appc09.html.

The Undergraduate Writing Center

I encourage you to use the Undergraduate Writing Center (UWC), FAC 211, 471-6222 (http://uwc.fac.utexas.edu) to assist you with writing your case analyses. The UWC offers free, individualized, expert help with writing, by appointment or on a drop-in basis. The UWC works with students on both academic and non-academic writing and its services are not just for writing with "problems." Getting feedback from an informed audience is a normal part of a successful writing project. Consultants help students develop strategies to improve their writing. Further, the assistance they provide is intended to foster independence - each student determines how to use the consultant's advice. The consultants are trained to help you work on your writing in ways that preserve the integrity of your work.

Policy on Scholastic Dishonesty and Working Together on Course Assignments

Policy of the Department of Accounting

The Department of Accounting has a Policy Statement on Scholastic Dishonesty, which is similar in content and objective to the UT MBA Honor Code. It is available on the web at http://www.mccombs.utexas.edu/dept/accounting/honestv.asp.

The accounting faculty has agreed to include the following statement in each course syllabus:

The Department of Accounting has no tolerance for acts of scholastic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are described in detail in the department's Policy Statement on Scholastic Dishonesty. By teaching this course, I have agreed to observe all of the faculty responsibilities described in that document. If the application of that Policy Statement to this class and its assignments is unclear in any way, it is your responsibility to ask me for clarification. Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the University. Since dishonesty harms the individual, all students, and the integrity of the University, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at http://deanofstudents.utexas.edu/sjs/ or the General Information Catalog to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.

Integrity is a public good from which we all benefit and a trait of successful businessmen and women. I intend to conduct this course in an environment of trust and cooperation. *I can only achieve this, however, if you maintain an atmosphere of absolute ethical integrity in this course.*

Personal Policy on Working Together (applies only to this course)

For this class, you may discuss issues related to assigned cases with other students in this class. You may work with others in the formative stages of an assignment to clarify issues and exchange ideas. However, I expect the final product of each collected assignment to reflect individual composition (with the exception of the group presentation). You may not copy or paraphrase from others' solutions. Examples intended to clarify this policy follow. When in doubt, ask me!

Examples of acceptable collaborative efforts (applies only to this course):

- A student is confused about an ambiguous aspect of a case, and asks another student what s/he thinks.
- Students ask questions and share helpful insights in class or on the discussion board.

Examples of collaborative efforts that are unacceptable:

- Student A completes a case before student B. B asks A for A's solution. B bases his/her solution on A's solution, changing a few words here and there to make it look original. Both A and B are guilty of scholastic dishonesty.
- A student finds a source relevant to a case and copies extensively from it, without using quotation
 marks, indentation or other references to acknowledge the source. This example constitutes

ACC 362 FALL 2012 Jeffrey L. Johan plagiarism, which is a clear case of scholastic dishonesty.

- A student completes an ACL case on the computer, and hands a USB device containing the solution file to another student. This constitutes blatant copying, and is clearly scholastic dishonesty.
- Any collaboration, breach of security or other cheating on a course examination.

[Course Schedule Follows on Next Page]

Anticipated Course Schedule

Assigned chapters are from *Auditing: a Business Risk Approach*, 8th ed., by Rittenberg, Johnstone & Gramling (South-Western, 2012 and 2010). Various other readings and course files will supplement this text **and may be added from time to time**.

IMPORTANT: Please complete each day's assigned reading *before class*.

The readings provide background that is necessary for understanding classroom discussion.

		Topic	Reading Assignment
29	Wed.	Course introduction and overview of auditing	Syllabus and Ch. 1
3	Mon.	Labor Day – no class	
5	Wed.	Auditing and corporate governance	Ch. 2
10	Mon.	Sarbanes-Oxley, the PCAOB and changes in the audit environment	• SOX summary
12	Wed.	Auditor independence and other ethical responsibilities	Ch. 3
17	Mon.	Ethical issues, cont./ Case 1 (MHA Textile) due today/ Risk, materiality and planning	Ch. 4
19	Wed.	Risk, materiality and planning, cont.	Weil article Brody et al. article
24]	Mon.	Catch up day	
26	Wed.	EXAM 1 (in class)	
	1 Mon.	Internal controls and the integrated audit	Chs. 5-6
	3 Wed.	Internal controls and the integrated audit, cont./Case 2 (WDI) due today	Chs. 5-6
	8 Mon.	Audit evidence	Chs. 7-8
	10 Wed.	Audit evidence, cont.	Chs. 7-8
1	5 Mon.	Audit sampling/ Case 3 (TBA) due today	Chs. 7-8
1	7 Wed.	Catch up day	
2	22 Mon.	EXAM 2 (in class)	
	3 5 10 12 17 24 26	3 Wed. 8 Mon. 10 Wed. 15 Mon.	29 Wed. Course introduction and overview of auditing 3 Mon. Labor Day – no class 5 Wed. Auditing and corporate governance 10 Mon. Sarbanes-Oxley, the PCAOB and changes in the audit environment 12 Wed. Auditor independence and other ethical responsibilities 17 Mon. Ethical issues, cont./ Case 1 (MHA Textile) due today/ Risk, materiality and planning 19 Wed. Risk, materiality and planning, cont. 24 Mon. Catch up day 26 Wed. EXAM 1 (in class) 1 Mon. Internal controls and the integrated audit, cont./Case 2 (WDI) due today 8 Mon. Audit evidence 10 Wed. Audit evidence, cont. 15 Mon. Audit sampling/ Case 3 (TBA) due today 17 Wed. Catch up day

Date	Topic	Reading Assignment
Oct. 24 Wed.	Fraud (video presentation)	Ch. 9
29 Mon.	Introduction to ACL software	ACL Appendix, www.cengagebrain.
31 Wed.	Auditing the revenue cycle	Ch. 10
Nov. 5 Mon.	Auditing the revenue cycle, cont.	•SEC Complaint
7 Wed.	Auditing the purchasing cycle	Ch. 11
12 Mon.	Auditing related entity transactions/ Case 4 (ACL) due today	Ch. 14 (pp. 778-784 only)
14 Wed.	Additional issues faced in completing the audit	Ch. 15
19 Mon.	Additional issues, cont./ Audit reporting	Ch. 16
21 Wed.	Day 1 of Group Presentations	
26 Mon.	Day 2 of Group Presentations	
28 Wed.	DAY 3 of Group Presentations	
Dec. 3 Mon.	DAY 4 of Group Presentations (if needed)/ Last day of class!	
5 Wed.	Catch up Day	
15 Sat.	FINAL EXAM at 2:00 p.m. (tentative)	