ACC 383.2 TOPICS IN AUDITING MANAGEMENT AUDITING AND CONTROL Spring 2013

Instructor Urton Anderson
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Hours: T 8:30-9:30 and TH 11-12 and

by appointment1

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Hours: TTH 1-2 and by appointment

REQUIRED TEXTS

(1) K. Reding, P. Sobel, U. Anderson, M. Head, S. Ramamoorti, M. Salamasick, and C. Shreve, *Internal Auditing: Assurance and Consulting Services*, 2nd Edition. The Institute of Internal Auditors, 2009.

- (2) ACC 383.2, Topics in Auditing Management Auditing and Control: Readings, Spring 2013. Available at Speedway Copy, 715 W. 23 Street (behind University Towers).
- (3) KnowledgeLeader provided by Protiviti, http://www.knowledgeleader.com/.

 Subscription will be set-up for each student in the class for the semester by the 3rd class period. The subscription is for the full semester and part of the KnowledgeLeader University program which provides the service to university internal audit courses at no cost to the students.

COURSE OBJECTIVES

This course is designed for students who plan careers in the accounting and finance functions of corporations or government entities or in the consulting/risk management/internal audit services side of public accounting and internal audit outsourcing firms. The purpose of the course is to introduce the student to scope of auditing in today's organizations, a scope that extends beyond far the traditional attestation of the financial statements. Its objectives are to provide the student with:

- A basic understanding of the use of internal auditing by top management and governing boards for controlling organizations.
- An understanding of techniques for risk assessment and management.
- Knowledge of the standards for conducting management audits.
- An understanding of the audit function's organization and administration.
- An understanding of the management audit process.
- Ability to scope and to establish criteria for an effective management audit.
- The knowledge and ability to apply the basic tools used in evidence collection and documentation including the generalized audit software package (IDEA) and electronic working papers (TeamMate).
- The ability to report effectively the results of the audit.

Among the topics to be covered are:

- Organizational governance and the role of internal audit
- Providing value-added internal audit services
- Types of internal audit services: (attestation, performance, quick response, assessment, facilitation, remediation)
- Risk assessment and allocation of audit resources
- The management audit process
- Use of CAATS

- Management control procedures and control system design
- Evaluating the effectiveness of compliance systems
- Management and control of contracts, outsourcing and offshoring relationships
- Auditor/auditee relations
- Effective engagement reporting
- Quality assurance of the audit function
- Investigative auditing

These and other topics will be cover through lectures and readings, analysis of case studies by students, presentation of by practitioners from industry and government, and a team project. At the completion of the course students should be ready to assume positions in internal audit functions.

EXAMINATIONS AND GRADING

Grades will be based on the total points obtained in the course (as shown below). Plus/minus grading will be used in the final course grade. I will assign specific numbers of A's, A-'s, B+'s, B's, etc. to result in an average GPA for the course of approximately 3.3 to 3.6. However, I will use my own judgment as to how this objective shall be obtained.

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Exam	125
Team Project	235
Class Participation,	
Quizzes and Attendance	100
Short Assignments	<u> 100</u>
TOTAL POINTS	560

EXAMS. The exam will consist of three parts: 1) multiple-choice problems, 2) short answer problems, 3) essay and extended calculation problems.

TEAM PROJECT. During the semester you will complete a major field project. You will work in groups of three to four depending on the scope of the project. The projects this term will involve actual audit work in a government agency, company or non-profit organization. The projects will be evaluated as follows:

	<u>POINTS</u>
Deliverables and work papers	100
Written Description	15
Interview	15
Class presentations	30
Final written report	30
Team evaluation	25
Individual evaluations (client and/or audit	
supervisor) and completion of audit final che	ecklist_20
. , ,	235

SHORT ASSIGNMENTS. There will be eight short assignments (i.e., homework assignments) during the semester. These will consist of three "cases", five TeamMate exercises and an interview (part of the project). The one case will be an exercise using the IDEA software which will be provided, and TeamMate cases and exercises will be done by web access. The TeamMate exercise are posted to Blackboard.

CLASS PARTICIPATION, QUIZZES AND ATTENDANCE. There will be 22 quizzes worth 3 points each (four lowest will be dropped) for a total of 54 points. The four dropped quizzes include all excused and unexcused absences (i.e., no make-up for missed quizzes). Additional points will be given for questions for guest speakers (2 points each), and project presentation evaluations (2 points each). The remainder of the 100 points will be awarded for general attendance and participation in class (approximately 10 points out of the 100).

ACADEMIC HONESTY

Accounting Department Policy:

The Department of Accounting has no tolerance for acts of scholastic dishonesty. The responsibility of both students and faculty with respect to scholastic dishonesty are described in detail in Statement on Scholastic Dishonesty in the MPA Program Codes of Conduct. By teaching this course, I have agreed to observe all of the faculty responsibilities described in that document. By enrolling in this class, you have agreed to observe all of the student responsibilities described in that document. If the application of that Statement to this class and its assignments is unclear in any way, it is your responsibility to ask me for clarification.

The student responsibilities embodied in the MPA Student Codes of Ethics, particularly the Statement on Scholastic Dishonesty, and are consistent with the GSB Honor Code and the University's General Information catalog. However, you should obtain and read the MPA Student Code of Conduct and policy on Scholastic Dishonesty to ensure that you understand your and my responsibilities. Copies are available at http://www.mccombs.utexas.edu/MPA/Student-Code-of-Ethics.aspx

Students with Disabilities

The University of Texas at Austin provides upon request appropriate academic accommodations for qualified students with disabilities. Services for Students with Disabilities (SSD) is housed in the Office of the Dean of Students, located on the fourth floor of the Student Services Building. Information on how to register, downloadable forms, including guidelines for documentation, accommodation request letters, and releases of information are available online at http://deanofstudents.utexas.edu/ssd/index.php. For more information, contact the Office of the Dean of Students at 471-6259, VP: (512) 232-2937 or via e-mail.

Religious Holy Days

By UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the date of observance of a religious holy day. If you must miss a class, an examination, a work assignment, or a project in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable time after the absence.

Campus Safety

Please note the following recommendations regarding emergency evacuation from the Office of Campus Safety and Security, 512-471-5767, http://www.utexas.edu/safety/

 Occupants of buildings on The University of Texas at Austin campus are required to evacuate buildings when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside.

- Familiarize yourself with all exit doors of each classroom and building you may occupy.
 Remember that the nearest exit door may not be the one you used when entering the building.
- Students requiring assistance in evacuation should inform their instructor in writing during the first week of class.
- In the event of an evacuation, follow the instruction of faculty or class instructors.
- Do not re-enter a building unless given instructions by the following: Austin Fire Department, The University of Texas at Austin Police Department, or Fire Prevention Services office.
- Behavior Concerns Advice Line (BCAL): 512-232-5050

Further information regarding emergency evacuation routes and emergency procedures can be found at: www.utexas.edu/emergency.

BEHAVIORAL CONCERNS ADVICE LINE: BCAL is a service for students, faculty, and staff of the university to discuss their concerns about another individual's behavior. Trained staff members will assist the caller in exploring available options and strategies. They will also provide appropriate guidance and resource referrals to address the particular situation. Dialing (512) 232-5050 will connect you to trained staff members 24/7/365. Calls to BCAL can be anonymous, and there is also an on-line reporting form (not anonymous).

ACC 383 ASSIGNMENTS FOR CLASSES¹

T January 15 CLASS 1

TOPIC: What is Management Auditing?

READINGS: None

TH January 17 CLASS 2

TOPIC: The Internal Auditing Profession; Adding Value: Governance, Risk Management and Control

- 1. Text Chapter 1
- 2. Text Chapters 3
- 3. Pulliam, S. and D. Solomon, "Uncooking the Books: How Three Unlikely Sleuths Discovered Fraud at WorldCom," WSJ, October 30, 2002, P A1
- 4. Applegate, D., "The U. S. Corporate Audit Function," The Internal Auditor, October 2004, pp. 23-27
- 5. Moody's Investor Services, Best Practices in Audit Committee Oversight of Internal Audit, October 2006. (Available at document section of course Blackboard web site)

T January 22 CLASS 3

TOPIC: The International Professional Practices Framework

READINGS

- 1. Chapter 2, read pages 2-1 to 2-18
- 2. Code of Ethics, On IIA Website https://na.theiia.org/standards-guidance/mandatory-guidance/Pages/Code-of-Ethics.aspx or Text, Appendix A.
- International Standards for the Professional Practice of Internal Auditing (Standards). For 2013 versions
 http://www.theiia.org/guidance/standards-and-guidance/ippf/standards/
 , (Text, Appendix B is 2009 version use 2013).
- 4. PA-1120-1 Individual Objectivity (Readings Packet)
- 5. PA-1130-1 Impairment to Independence or Objectivity
- 6. PA-1130.A2-1 Internal Audit's Responsibility for Other (Non-audit) Functions
- 7. PA-1210-1 Proficiency

TH January 24 CLASS 4

TOPIC: The Internal Auditing Profession, the International Professional Practices Framework **READINGS**

- 1. Chapter 2, read pages 2-18 to 2-31
- International Standards for the Professional Practice of Internal Auditing (Standards). For 2013 versions http://www.theiia.org/guidance/standards-and-guidance/ippf/standards/, (Text, Appendix B is 2009 version use 2013).

T January 29 CLASS 5

TOPIC: Risk Management

READINGS

- 1. Text Chapter 4
- Committee of Sponsoring Organizations of the Treadway Commission, COSO Enterprise Risk Management — Integrated Framework, (COSO, 2004), executive summary. Found at: http://www.coso.org/Publications/ERM/COSO ERM ExecutiveSummary.pdf
- 3. Sobel, P. and G. Kapoor, Step Up to the Plate, The Internal Auditor, April 2012, pp. 41-44
- 4. Position Paper The Role of Internal Auditing in Enterprise-wide Risk Management. Found at: http://www.theiia.org/guidance/standards-and-guidance/ippf/position-papers/

¹ The following abbreviations are used:

R&A --ACC 383.2, *Topics in Auditing - Management Auditing and Control: Readings and Assignments*, Spring 2013. **Text --** K. Reding, P. Sobel, U. Anderson, M. Head, S. Ramamoorti, , M. Salamasick, and C. Shreve, *Internal Auditing: Assurance and Consulting Services*, 2nd edition, The Institute of Internal Auditors, 2009

TH January 31 CLASS 6

TOPIC: Information Technology Risks and Controls

READINGS

- 1. Text Chapter 7
- 1. PA-2130.A1-1 Information Reliability and Integrity
- 2. (PG) GTAG 1: Information Technology Risk and Controls, 2nd Edition, March 2012 (reading packet)

February 5 CLASS 7

TOPIC: No Class- Project work day

READINGS: None

TH February 7 CLASS 8

TOPIC: Business Process and Business Risks

READINGS

- 1. Text Chapter 5
- 2. Kaplan, J. AuditNet Auditors Guide to Flowcharting. Found at: http://www.auditnet.org/Guides/flowcharting%20guide.pdf
- 3 PA-2010-1 Linking the Audit Plan to Risk and Exposures
- 3. PA 2010-2: Using the Risk Management Process in Internal Audit Planning
- 4. PA 2200-2: Using a Top-down, Risk-based Approach to Identify the Controls to be Assessed in an Internal Audit Engagement
- 5. Chapter 5, Case 1, Text 5-33-5-35 (due Feb 7)

ASSIGNMENT

TeamMate Exercise 1 (TeamMate Exercises found on Blackboard)

T February 12 Class 9

TOPIC: Internal Control

READINGS

- 1. Text Chapter 6
- 2. Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control Integrated Framework*, (COSO, 1992), executive summary. Found at: http://www.coso.org/IC-IntegratedFramework-summary.htm
- 3. CS1, Auditing Entity-wide Controls, CS1-1 to CS1-12 (posted to blackboard)
- 4. Marks, N. "Beyond Continuous Auditing," The Internal Auditor, December 2009, pp. 51-55
- 5. Slifker, L. "The Risk of Rogues," The Internal Auditor, December 2008, pp. 60-64.
- 6. PA-2130-1 Assessing the Adequacy of Control Processes

ASSIGNMENT

Case 1 due (Chapter 5, 5-33 to 5-35)

TH February 14 CLASS10

TOPIC: Performing the Assurance Engagement: An Overview of the Audit Process

READINGS

- 1. Text, Chapter 12
- 2. PA-2200-1 Engagement Planning
- 3. PA-2210.A1-1 Risk Assessment in Engagement Planning
- 4. PG Integrated Auditing, July 2012

ASSIGNMENT

TeamMate Exercise 2

T February 19 CLASS 11 – Sharon Grant – Managing Director- Corporate Audit– United Airlines

TOPIC: Managing the Internal Audit Function

READINGS

- 1. Text, Chapter 9
- 2. PA-2030-1 Resource Management
- 3. PG Interaction with the Board, August 2011 (reading packet)

TH February 12 CLASS12

TOPIC: Performing the Assurance Engagement – Audit Evidence and Procedures

READINGS

- 1. Text, Chapters 10,
- 2. Lange, J. "Curse of the Prior Workpapers," The Internal Auditor, August 2005, pp. 26-27
- 3. Wueste, B. "Producing Quality Workpapers," The Internal Auditor, December 2008, pp. 19-20
- 4. PA-2330-1 Documenting Information

ASSIGNMENT

TeamMate Exercise 3

T February 26 Class 13

TOPIC: Performing the Assurance Engagement

READINGS

- 1. Text, Chapters 13
- 2. Wright, R. "Effective Kickoff Meetings," The Internal Auditor, April 2009, pp. 21 and 23.
- 4. PA 2050-3: Relying in the Work of Other Assurance Providers

TH February 28 CLASS 14

TOPIC: Performing the Assurance Engagement: Inquiry and Other Procedures

READINGS

- 1. Brune, C. "The Artful Interviewer," *The Internal Auditor*, April 2003, pp. 25-27.
- 2. Balkaran, L. "Client Interviews, *The Internal Auditor*, October 2010, pp. 19-21.
- 3. Turpen, R. "A Fresh Look at Walkthroughs," The Internal Auditor, December 2004, pp. 25-29
- 4. PA 2320-1: Analytical Procedures

ASSIGNMENT

TeamMate Exercise 4

T March 5 CLASS 15 - John Polarinakis - CAE J.C. PENNEY

TOPIC: IA's Role in Supporting the Organization's Strategy

READINGS

1 PG, Developing the Internal Audit Strategic Plan, July 2012

ASSIGNMENT

Case 2 due

TH March 7 CLASS16 -

TOPIC: Performing the Assurance Engagement: Testing and Sampling

READINGS

1. Text, Chapters 11

March 11 - March 15 - Spring Break

T March 19 CLASS17

TOPIC: Performing the Assurance Engagement: Testing and Sampling

READINGS

- 1. Applegate, D. "Attribute Sampling Plans", The Internal Auditor, February 2010, pp. 19 and 21.
- 2. Martin, J. "Sampling made Simple", *The Internal Auditor*, August 2004, pp. 21-24.
- 3. (PG) GTAG 16: Data Analysis Technologies, August 2011 (reading packet)

TH March 21 CLASS 18

TOPIC: Reporting and Follow-up

READINGS

- 1. Text, Chapters 14
- 2. PA 2320-2 Root Cause Analysis
- 3. PA-2410-1 Communication Criteria
- 4. PA 2440.A2-1: Communications Outside the Organization

ASSIGNMENT

TeamMate Exercise 5

March 26 CLASS 19

TOPIC: Reporting and Follow-up

READINGS

- 1. Feierman, J. "Write it Right the First Time," The Internal Auditor, February 2006, pp. 27-32.
- 2. PA-2500-1 Monitoring Progress
- 3. PA-2500.A1-1 Follow-up Process
- 4. PG, Formulating and Expressing Internal Audit Opinions, April 2009
- 5. GAO/SAO/City Audit report to be determined

ASSIGNMENT

Case 3 due

TH March 28 CLASS 20 - Charles Chaffin - UT Systems CAE (retired)

TOPIC: Performing the Consulting Engagement

READINGS

- 1. Text, Chapter 15
- 2. Head, M., K. Reding, and C. Riddle, "Blended Engagements," *The Internal Auditor,* October 2010, pp. 40-44.
- 3. White, S., "The Auditor as Internal Consultant, *The Internal Auditor*, February 2007, pp. 60-64.

T April 2 CLASS 21

TOPIC: Investigative Auditing

READINGS:

- 1. Text, Chapter 8
- 2. PG, Internal Auditing and Fraud, December 2009

TH April 4 Class 22

TOPIC: Compliance

READINGS

- 1. CS2, Compliance, (posted to blackboard).
- 2. Kuzma, S., D. Torpey, and V. Walden, "Evaluating Third-party Due Diligence," *The Internal Auditor*, June 2012, pp. 43-47.
- 3. PG, Evaluating Ethics-related Programs and Activities, June 2012
- 4. Pollock, J. and D. Sumner, "A Close Eye on Business Partners, *The Internal Auditor*, December 2012, pp. 43-46.

T April 9 Class 23 -

TOPIC: Compliance, Ethical Culture and Whistleblowing

READINGS:

- 1. Waring, C. "Measuring Ethical Climate Risk," The Internal Auditor, December 2004, pp. 71-85
- 2. Baker, N. "See no Evil, Hear No Evil, Speak No Evil," The Internal Auditor, April 2008, pp. 38-43.
- 3. Anderson, U. "Assessing the Merits of Alleged Wrongdoing," Internal Auditing, Spring 1995, pp. 48-54.
- 4. Jackson, R. "The Wall of Deceit," The Internal Auditor, December 2012, pp. 36-41.
- 5. PA 2440-2: Communicating Sensitive Information Within and Outside the Chain of Command

ASSIGNMENT

Practice Exam (not to be handed in)

TH April 11 Class 24

TOPIC: Exam

T April 16 Robert Pink – Principal – IA and Regulatory Compliance Services - KPMG

TOPIC: Compliance, Contracts and Alliances

READINGS

- 1. Daugherty, T. *The Self-Reporting Economy: A Matter of Transparency and Trust*, KPMG 2004. (Available at document section of course Blackboard web site).
- 2. PG: Auditing External Business Relationships, May 2009
- 3. Choe, V., D. Taylor, and A. Brizhik, "SOC 2 Breakdown," *The Internal Auditor*, February 2012, pp. 54-58.

TH April 18 CLASS 26

TOPIC: Right Sizing and Providing Assurance of IA Effectiveness

READINGS:

- 1. PG, Coordinating Risk Management and Assurance, March 2012
- 2. PG- Measuring Internal Audit Effectiveness and Efficiency, December 2010
- 3. PA-1210.A1-1 Obtaining External Service Providers to Support or Complement the Internal Audit Activity
- 4. PA-2050-1 Coordination
- 5. PA 2050-2: Assurance Maps

T April 23 Class 27 -

TOPIC: Project Presentations

READINGS: None

TH April 25 CLASS 28 TOPIC: No Class— Project work day

READINGS: None

T April 30 Class 29 - TOPIC: Project Presentations

READINGS: None

TH May 2 Class 30 - TOPIC: Project Presentations

READINGS: None

May 13 (Monday) 8-12

Final Exam Period - Presentations

Workpapers and final reports due to CBA 4M.242 May 14 by 10AM