

ACC 383K.2 (02940)
TOPICS IN AUDITING
MANAGEMENT AUDITING AND CONTROL
FALL 2013

TIME: MW 2:00-3:30 PM, IN UTC 3.102

Instructor: Bob George
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The University of Texas at Austin

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Hours: MW 3:30 to 5:30 PM, by appointment

Course TA: Kristen Valentine

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Hours: By appointment

REQUIRED TEXTS:

- (1) K. Reding, P. Sobel, U. Anderson, M. Head, S. Ramamoorti, M. Salamasick, and C. Riddle, *Internal Auditing: Assurance and Advisory Services*, 3rd Edition, The Institute of Internal Auditors, 2013.
- (2) ACC 383K.2 (02940), *Topics in Auditing - Management Auditing and Control: Readings, Fall 2013*. Available at McCombs copy center, third floor.
- (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 or internal audit functions of corporations or government entities or in the consulting/risk management/internal audit services side of public accounting and internal audit sourcing firms. The purpose of the course is to introduce the student to the scope of internal auditing in today's organizations, a scope that extends far beyond the traditional external audit attestation of 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 internal audits.
- An understanding of the organization and administration of internal audit functions.
- An understanding of the internal audit process.
- An ability to scope and establish criteria for an effective internal audit.
- The knowledge and ability to apply the basic tools used in evidence collection, including generalized audit software packages.
- The ability to report effectively the results of the internal audit.

Among the topics to be covered are:

- Organizational governance and the role of internal audit
- Providing value-added internal audit services
- Types of assurance and consulting internal audit services
- Risk assessments and allocation of audit resources
- The internal audit process
- Use of CAATS
- Internal control procedures and control system design
- Evaluating the effectiveness of compliance systems
- Management and control of contracts, outsourcing and offshoring relationships
- Internal auditor/auditee relations
- Effective engagement reporting
- Quality assurance of the internal audit function
- Investigative auditing

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

EXAMINATIONS AND GRADING

I DO NOT HAVE ANY FIXED POINT OR PERCENTAGE CUT-OFFS IN MIND REGARDING LETTER GRADES. I WILL MAKE THESE DETERMINATIONS AT THE END OF THE COURSE BASED ON BOTH RELATIVE AND ABSOLUTE PERFORMANCE CONSIDERATIONS.

| | <u>POINTS</u> |
|--|---------------|
| Exam | 125 |
| Team Project | 235 |
| Class Participation, Quizzes and Attendance | 100 |
| Short Assignments | <u>80</u> |
| TOTAL POINTS | 540 |

The University of Texas at Austin has instituted plus/minus grading for graduate students. Department of Accounting policy requires that a grading scale including pluses and minuses be used for all graduate accounting classes. University policy continues to prohibit use of plus/minus grading for undergraduate students. Department of Accounting policy requires that grades for undergraduate students enrolled in graduate accounting classes will be determined by dropping the plus or minus (if any) from their letter grade.

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

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

| | <u>POINTS</u> |
|---|-------------------------|
| Deliverables and work papers | 100 |
| Written Description of Auditee | 15 |
| Auditee Interview | 15 |
| Class presentation | 30 |
| Final written report | 30 |
| Team evaluation | 25 |
| Individual evaluations (from project sponsors) and Completion of audit final checklist | <u>20</u> <u>235</u> |

SHORT ASSIGNMENTS. There will be eight short homework assignments during the semester which will be posted to the Blackboard. Three of these will consist of cases with the other five consisting of TeamMate software exercises that will be completed through web access.

CLASS PARTICIPATION, QUIZZES AND ATTENDANCE. There will be 10 quizzes worth 5 points each. Additional points will be given for questions for guest speakers (1 point each), and project presentation evaluations (1 point each). The remainder of the 100 points will be awarded for general attendance and participation in class.

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 the department's Policy Statement on Scholastic Dishonesty in the MPA Program and the Professional Program in Accounting. 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 Policy 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 department's Policy Statement on Scholastic Dishonesty are consistent with the GSB Honor Code and the University's General Information catalog. However, you should obtain and read the department's Policy Statement to ensure that you understand my responsibilities. Copies are available in CBA 2.302.

Students with Disabilities

The University of Texas at Austin provides upon request appropriate academic accommodations for qualified students with disabilities. For more information, contact the Office of the Dean of Students at 471-6259, 471-4641 TTY.

Class Web Sites and Student Privacy

In Spring 2001, web-based, password-protected class sites became 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/qi05-06/app/appc09.html>

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 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 use 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)

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 383K
ASSIGNMENTS FOR CLASSES¹

W August 28 CLASS 1

TOPIC: What is Management Auditing?

READINGS: Course Syllabus

M September 2 – Labor Day

W September 4 CLASS 2

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

1. Text - Chapter 1
 2. Text - Chapter 3
 3. Applegate, D., "The U. S. Corporate Audit Function," *The Internal Auditor*, October 2004, pp. 23-27
 4. Moody's Investor Services, Best Practices in Audit Committee Oversight of Internal Audit, October 2006.
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M September 9 CLASS 3

TOPIC: The International Professional Practices Framework

READINGS

1. Chapter 2, read pages 2-1 to 2-18
 2. IIA Code of Ethics, Text, Appendix A.
 3. International Standards for the Professional Practice of Internal Auditing (Standards). Text, Appendix B.
 4. PA-1120-1 Individual Objectivity
 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
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W September 11 CLASS 4 – Mike Peppers, Chief Audit Executive – University of Texas System

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

READINGS

1. Chapter 2, read pages 2-18 to 2-34
 2. International Standards for the Professional Practice of Internal Auditing (Standards). Text Appendix B.
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M September 16 CLASS 5 – Brian Kinman, Partner (retired) - PwC

TOPIC: Risk Management

READINGS

1. Text - Chapter 4
 2. Committee of Sponsoring Organizations of the Treadway Commission, COSO *Enterprise Risk Management — Integrated Framework*, (COSO, 2004), Executive Summary.
 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.
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W September 18 Class 6

TOPIC: Information Technology Risks and Controls

READINGS

1. Text – Chapter 7
2. PA-2130.A1-1: Information Reliability and Integrity
3. GTAG 1: Information Technology Risk and Controls, 2nd Edition, March 2012

ASSIGNMENT

Case 1 (Due September 25)

M September 23 CLASS 7

TOPIC: No Class– Project work day

READINGS: None

IMPORTANT: ALL READING MATERIAL CAN BE FOUND IN THE REQUIRED TEXTBOOK, READING PACKET AND/OR ON BLACKBOARD.

W September 25 CLASS 8 –Sonny Brantner, West U Mayoral Candidate, Former CAE & Big 4 Partner

TOPIC: Business Process and Business Risks

READINGS

1. Text - Chapter 5
2. Kaplan, J. AuditNet Auditors Guide to Flowcharting.
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

ASSIGNMENT

Case 1 due in class

TeamMate Exercise 1 (TeamMate Exercises found on Blackboard) (Due September 30)

M September 30 Class 9

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 1 due in class

W October 2 CLASS 10

TOPIC: Performing the Consulting Engagement

READINGS

1. Text, Chapter 15
2. Head, Reding, and 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.

ASSIGNMENT

Case 2 (Due October 7)

M October 7 CLASS 11 – Lorie Winkler, Assistant Vice President of Audit Services - USAA

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

Case 2 due in class

TeamMate Exercise 4 (Teammate Exercises found on Blackboard) (Due October 14)

W October 9 CLASS 12 – Eric Krolikowski, Audit Senior Manager - JC Penney

TOPIC: Performing the Assurance Engagement: Testing and Sampling

READINGS

1. Text, Chapter 11
 2. Applegate, D. “Attribute Sampling Plans”, *The Internal Auditor*, February 2010, pp. 19 and 21.
 3. Martin, J. “Sampling made Simple”, *The Internal Auditor*, August 2004, pp. 21-24.
 4. GTAG 16: Data Analysis Technologies, August 2011
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M October 14 Class 13

TOPIC: Internal Audit’s Role in Supporting Organizational Strategy

READINGS

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

ASSIGNMENT

TeamMate Exercise 4 due in class

W October 16 CLASS 14

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.
3. PA 2050-3: Relying in the Work of Other Assurance Providers

ASSIGNMENT

TeamMate Exercise 4 (TeamMate Exercises found on Blackboard) (Due October 21)

M October 21 CLASS 15 – Chris Williams, North Texas Risk Assurance Leader/Amanda Herron, Risk Assurance Director - PwC

TOPIC: Risking It All

READINGS

TBD

ASSIGNMENT

TeamMate Exercise 4 due in class

W October 23 CLASS 16– Lyn Beaty, Chief Audit Executive - Halliburton

TOPIC: Risk Management and Internal Control in Practice

READINGS

1. Text - Chapter 6
2. Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control - Integrated Framework*, (COSO, 1992), executive summary.
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

TeamMate Exercise 2 (TeamMate Exercises found on Blackboard) (Due October 28)

M October 28 CLASS 17

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
5. PA-2500-1 Monitoring Progress
6. PA-2500.A1-1 Follow-up Process
7. PG - Formulating and Expressing Internal Audit Opinions, April 2009

ASSIGNMENT

TeamMate Exercise 2 due in class

TeamMate Exercise 5 (TeamMate Exercises found on Blackboard) (Due November 4)

W October 30 CLASS 18

TOPIC: No Class– Project work day

READINGS: None

M November 4 CLASS 19 – Sharon Grant – Chief Audit Executive– United Airlines

TOPIC: Managing the Internal Audit Function

READINGS

8. Text, Chapter 9
9. PA-2030-1 Resource Management
10. PG - Interaction with the Board, August 2011

ASSIGNMENT

TeamMate Exercise 3 (TeamMate Exercises found on Blackboard) (Due November 6)

TeamMate Exercise 5 due in class

W November 6 CLASS 20

TOPIC: Creating Internal Audit Value

READINGS

TBD

ASSIGNMENT

Case 3 (Due November 11)

Teammate Exercise 3 due in class

M November 11 Class 21 – Jonny Frank, Partner - StoneTurn

TOPIC: Investigative Auditing

READINGS:

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

ASSIGNMENT

Case 3 due in class

W November 13 Class 22 – Larry Plutko - Chief Compliance Officer, University of Texas System

TOPIC: Compliance, Ethical Culture and Whistleblowing

READINGS:

1. Waring, C. "Measuring Ethical Climate Risk," *The Internal Auditor*, December 2004, pp. 71-75
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
6. PG - Evaluating Ethics-related Programs and Activities, June 2012

ASSIGNMENT

Practice Exam (not to be handed in)

M November 18 Class 23

TOPIC: Exam

W November 20 Class 24 – Steve Shelton, CAE KBR

TOPIC: Anti-Corruption Auditing

READINGS

M November 25 CLASS 25 – Chow Yu, Chief Audit Executive – Waste Management

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
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W November 27 CLASS 26

TOPIC: No Class– Project work day

READINGS: None

M December 2 Class 27

TOPIC: Project Presentations

READINGS: None

W December 4 Class 28

TOPIC: Project Presentations

READINGS: None

M December 7

Final Exam Period

Workpapers and final reports due to CBA 4M by Noon
