



ACT 4070A: PRINCIPLES OF AUDITING

COURSE SYLLABUS

Credits: 3 Units

1.0 COURSE DESCRIPTION

The course is designed to provide in-depth study of auditing principles, concepts, and practices as it applies mainly to business and investors. Further, it will provide the student with a working knowledge of auditing procedures and techniques, standards, ethics and legal environment, statistical audit tools as well as audit reports.

Pre-requisite: ACT 2010, BUS 3010.

2.0 PURPOSE OF THE COURSE

The major purpose of this course is to prepare students to understand the nature and objectives of an audit and make them appreciate the general auditing practice.

3.0 LEARNING OUTCOMES

3.1 Link to the University Learning Outcomes

The USIU mission is to promote the discovery and application of knowledge, acquisition of skills, and the development of intellect and character in a manner that prepares the students to contribute effectively and ethically as citizens of a changing and increasingly technological world. This course (ACT 4070) is crafted to equip students with a broad range of knowledge, skills, and attitudes to help them understand and appreciate the nature of auditing and its practices so as to confirm the successful management and leadership of profit- and not-for-profit organizations in a changing environment.

3.2 Link to the Chandaria School of Business Outcomes

In line with the University mission, the mission of Chandaria School of Business is to provide a range of knowledge, skills, attitudes and problem-solving abilities to enable the student respond to the need for successful management and leadership of profit- and not-for-profit organizations in a dynamic environment.

At the end of this program students should be able to:

- Demonstrate awareness, knowledge and appreciation in application of auditing principles and practices in global business operations.
- Demonstrate knowledge of different functions of business and appreciation of integrated functional business areas; and make use of adaptive and innovative skills in solving business problems.
- Demonstrate practical working experience attained through participation in team work and contribution to community and societal causes; and the ability to collect and analyze data to provide business solutions.
- Demonstrate understanding of diversity, and ability to work harmoniously with individuals and groups in organizations; and competencies in oral and written communication skills and use of technology.
- Demonstrate mastery of knowledge, skills and values relevant to a career in the selected disciplines; and effective, efficient and ethical leadership.

4.0 COURSE LEARNING OUTCOMES

At the end of this course the students should be able to:

- 4.1 Demonstrate an understanding of the nature and scope of auditing and related services.
- 4.2 Describe and discuss the regulatory framework of auditing and related services.
- 4.3 Show understanding and explain the ethical standards of an auditor.
- 4.4 Explain the stages of an audit and methods of gathering audit evidence.
- 4.5 Show understanding and be able to interpret different types of audit reports.

5.0 COURSE CONTENT

5.1 Week 1 - 2: Introduction to auditing

Learning Outcomes

At the end of this topic the students will be able to:

- Describe auditing.
- Distinguish between auditing and accounting.
- Explain the importance of auditing in reducing information risk.
- List the causes of information risk and explain how this can be reduced.
- Describe assurance services and distinguish audit services from assurance services.
- Differentiate three main types of audits.
- Identify the primary audits.
- Business failure, audit failure and audit risk.

Discussion Topics

- Nature (meaning and objectives) of auditing.
- Purpose, scope and limitations of an audit (distinction between auditing and accounting).
- Kinds/ types of audits and auditors.
- Auditing and other services (Assurance services).

- The demand for auditing services.
- Auditing guidelines
- Cases – re Kingston cotton mill case, 1886; and Enron case, 2001.

Class Activities

- Read course text: O. Ray Whittington, Kurt Pany, *Principles of Auditing and Other Assurance Services*, 13th Edition, McGraw-Hill (2000). Chapter 1, pp. 1 – 20; Chapter 5, pp. 136 – 140; Chapter 19, pp.742 – 774; Chapter 20, pp. 775 - 806.
- Undertake Assignments and any exercises generated by the instructor in class.

5.2 Week 3 - 4: Auditors Professional Conduct

Learning Outcomes

At the end of this topic the students will be able to:

- Explain the need for the auditor to display integrity, independence and objectivity.
- Explain the importance of ethical conduct for the accounting profession.
- Describe the purpose and content of the CPA code of professional conduct.
- Assess the importance and protection of the professional duty of confidence.
- Describe and apply the rules and procedures when there is a change in professional appointment.
- Discuss the principles and legal rules applying to books and papers.
- Describe and apply the procedures surrounding conflicts of interest when giving corporate financial advice.

Discussion Topics

- Meaning and importance of ethics.
- Ethical dilemmas.
- Special needs for ethical conduct in the profession.
- Code of professional conduct.
- Independence.
- Other rules of conduct (conflicts of interest, advertising and publicity, professional work, remuneration, insider dealing, and other matters).
- Professional standards and guidelines (reference ICPAK guidelines).
- Enforcement of rules of ethical conduct.
- Cases – Enron case, 2001; and WorldCom case, 2002.

Class Activities

- Read course text: O. Ray Whittington, Kurt Pany, *Principles of Auditing and Other Assurance Services*, 13th Edition, McGraw-Hill (2000). Chapter 2, pp. 34 – 38 and Chapter 3, pp. 63 – 92.
- Discuss the issues in the course text and those identified by the instructor.
- Undertake any exercises generated by the instructor in class.

5.3 Weeks 5 - 6: The legal liability of an auditor

Learning Outcomes

At the end of this session the students will be able to:

- Explain the legal environment in which the auditor practices.
- Use the primary legal concepts and terms concerning accountants' liability as a basis of studying auditors' liability.

- Describe liability of accountants to clients and related defense.
- Describe liability of accountants to third parties under common law.
- Specify what constitutes criminal liability.
- Describe what can be done to reduce auditors' threat of litigation.

Discussion Topics

- Appointment, qualifications, remuneration, dismissal and auditor's rights on attempts to dismiss him; and resignation and rights on auditor's resignation - Rights of an auditor (requirements of Auditing Standards and those of Company's Act).
- Auditors changed legal environment.
- Liability to clients.
- Liability to third parties under common law.
- Criminal liability of auditors.
- Response to legal liability.
- Protection from legal liability.
- Cases (to be provided).

Class Activities and assignments

- Read course text: O. Ray Whittington, Kurt Pany, *Principles of Auditing and Other Assurance Services*, 13th Edition, McGraw-Hill (2000). Chapter 4, pp. 103 – 124.
- Discuss the issues in the course text and those identified by the instructor.
- Undertake exercises generated by the instructor in class.

Week 7: Mid Semester Examination

5.4 Week 8: Objectives of an audit and auditor's responsibilities

Learning Outcomes

At the end of this session the students will be able to:

- Explain the objectives of conducting audits of financial statements and internal controls.
- Distinguish management's responsibility for financial statements and internal controls from auditor's responsibility.
- Explain auditor's responsibilities in discovering material misstatements.
- Distinguish the three categories of management assertions in financial statements.
- Link transactions-related audit objectives to management assertions.
- Link balance-related audit objectives to management assertions.
- Link presentations- and disclosure-related audit objectives to management assertions on presentation and disclosure.
- Explain the relationship between audit objectives and audit evidence.

Discussion Topics

- Duties of an auditor (requirements of Auditing Standards and those of Company's Act).
- Objectives of financial statements audit.
- Management responsibilities.
- Auditor's responsibilities.

- Financial statement cycles.
- Management assertions.
- Transactions related audit objectives.
- Presentation and disclosure of related audit objectives.

Class Activities and Assignments

- Read course text: O. Ray Whittington, Kurt Pany, *Principles of Auditing and Other Assurance Services*, 13th Edition, McGraw-Hill (2000). Relevant areas.
- Discuss the issues in the course text and those identified by the instructor.
- Undertake any exercises generated by the instructor in class.

5.5 Week 9: Audit evidence

Learning Outcomes

At the end of this session the students will be able to:

- Explain the relationship between evidence and audit risk.
- Identify and explain the components of audit risk.
- Specify the factors that determine persuasiveness of audit evidence.
- Identify and apply the various types of audit evidence.
- Exhibit clear understanding of the purposes/importance and contents of audit working papers.
- Prepare audit working papers.

Discussion Topics

- Nature of audit evidence.
- Qualities of good audit evidence.
- Persuasiveness of evidence.
- Sources of audit evidence.
- Techniques of obtaining audit evidence.
- Sampling and sampling techniques.
- Audit working papers.

Class Activities and Assignments

- Read course text: O. Ray Whittington, Kurt Pany, *Principles of Auditing and Other Assurance Services*, 13th Edition, McGraw-Hill (2000). Chapter 5, pp. 135 – 169.
- Discuss the issues in the course text and those identified by the instructor.
- Undertake any exercises generated by the instructor in class.

5.6 Week 10: Stages of a modern audit

Learning Outcomes

At the end of this session the students will be able to:

- Carry out background research of an audit assignment and plan the audit.
- Explain the process of carrying out accounting systems review.
- Discuss the process of carrying out an internal control systems and analytical review.
- Exhibit clear understanding of the process and techniques of audit testing.

- Explain the contents and process of audit report preparation and signing.

Discussion Topics

- Background research.
- Audit planning.
- Accounting systems review.
- Review of internal control systems.
- Audit testing: walk-through checks, compliance tests, substantive tests.
- Techniques of audit testing.
- Analytical review.
- Preparation and signing of audit report.

Class Activities and Assignments

- Read course text: O. Ray Whittington, Kurt Pany, *'Principles of Auditing and Other Assurance Services*, 13th Edition, McGraw-Hill (2000). To be advised.
- Discuss the issues in the course text and those identified by the instructor.
- Undertake any exercises generated by the instructor in class.

5.7 Week 11: Planning the audit/Designing audit programs

Learning Outcomes

At the end of this session the students will be able to:

- Discuss why adequate audit planning is essential.
- Identify factors considered by auditors in accepting new clients.
- Gain an understanding of clients business and industry.
- Assess client's business risk.
- Describe the objectives of audit programs of asset accounts.
- Perform preliminary analytical procedures.
- Select the most appropriate analytical procedures from the five major types.
- Describe the major steps in audit process.
- Compute common financial ratios.

Discussion Topics

- Planning the audit.
- Accepting client and performing initial audit planning.
- Understanding clients business and industry.
- Assess client's business risk.
- Develop overall audit strategy.
- Design audit programs.
- Perform preliminary analytical procedures.
- Common financial ratios.

Class Activities and Assignments

- Read course text: O. Ray Whittington, Kurt Pany, *'Principles of Auditing and Other Assurance Services*, 13th Edition, McGraw-Hill (2000). Chapter 6, pp. 184 – 238.

- Discuss the issues in the course text and those identified by the instructor.
- Undertake any exercises generated by the instructor in class.

5.8 Week 12: Review of Accounting Systems and Internal controls

Learning Outcomes

At the end of this session the students will be able to:

- Describe the three primary objectives of effective internal control.
- Contrast management and auditors responsibilities for maintaining and reporting on internal controls.
- Explain components of the COSO internal control framework.
- Describe differences in evaluating, reporting and testing internal control for private companies.

Discussion Topics

- Internal control objectives.
- Management and auditors responsibility for internal control.
- Types of internal controls.
- Components of internal control.
- Ascertainment of internal control system.
- Obtain and document understanding of internal control system (system notes, flow charts, descriptive questionnaires).
- Evaluating internal control system: systems and vouching approaches).
- Assess control risk.
- Decide and design substantive tests.

Class Activities and Assignments

- Read course text: O. Ray Whittington, Kurt Pany, *Principles of Auditing and Other Assurance Services*, 13th Edition, McGraw-Hill (2000). Chapter 7, pp. 239 – 283; Chapter 8, pp. 284 – 324.
- Discuss the issues in the course text and those identified by the instructor.
- Undertake any exercises generated by the instructor in class.

5.9 Week 13: Audit testing / Auditors Reports

Learning Outcomes

At the end of this session the students will be able to:

- Describe parts of standard unqualified audit report.
- Specify the conditions for a standard unqualified report.
- Describe circumstances for appropriate unqualified report.
- Identify types of audit reports when an unqualified opinion is not justified.
- Explain effects of materiality on audit reporting decisions.

Discussion Topics

- Auditor's responsibility for Errors, fraud and other irregularities.

- Types and contents of audit opinions/reports.
- Requirements of the auditing standards.
- Requirements of the companies Act.
- Completing the audit.
- Standard unqualified audit report.
- Modified unqualified audit report.
- Departures from unqualified audit report.
- Materiality.
- Conditions requiring departure.
- Impact of E-Commerce on audit reporting.

Class Activities and Assignments

- Read course text: O. Ray Whittington, Kurt Pany, '*Principles of Auditing and Other Assurance Services*, 13th Edition, McGraw-Hill (2000). Chapter 17, pp. 675 – 711; Chapter 18, pp. 712 - 741.
- Discuss the issues in the course text and those identified by the instructor.
- Undertake any exercises generated by the instructor in class.

Week 14: Final Examination

6.0 TEACHING METHODOLOGY

The course will be conducted by a combination of lectures, class discussions, and case studies. Students are advised to read the relevant materials before class sessions to enhance their class participation and understanding. Students are also advised to solve as many problems at the end of each relevant chapter as will be possible.

7.0 READING MATERIALS

7.1 Course Texts

- O. Ray Whittington, Kurt Pany, '*Principles of Auditing and Other Assurance Services, 13th Edition, McGraw-Hill (2000)*.

7.2 Recommended Readings

- Alvin A. Arens et al: *Auditing and assurance services, an integrated approach, 12th edition*, Pearson Prentice Hall, New Jersey (2008).

8.0 COURSE EVALUATION

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|---|-------------------|
| | <u>%</u> |
| Class Attendance & Participation | 10 |
| Individual Assignments (a minimum of 3) | 40 |
| Mid Semester Examination | 20 |
| Final Examination | <u>30</u> |
| | <u>100</u> |

9.0 GRADING SYSTEM

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| 90 – 100 | A |
| 87 – 89 | A- |
| 84 – 86 | B+ |
| 80 – 83 | B |
| 77 – 79 | B- |
| 74 – 76 | C+ |
| 70 – 73 | C |
| 67 – 69 | C- |
| 64 – 66 | D+ |
| 62 – 63 | D |
| 60 – 61 | D- |
| 0 - 59 | F |

10.0 NOTE:

- Missing class **SEVEN TIMES** without permission will lead to an **AUTOMATIC FAIL** regardless of the marks attained.
- There will be **NO MAKE-UP** examinations in this course. Special exams may be given for valid reasons such as illness and bereavement, but there must be credible documentary evidence.
- Assignments submitted late will attract penalties.