

**Boston College**  
**Carroll School of Management**  
**Syllabus- MA 309**  
**Spring 2006**

**Course:** Auditing and Assurance Services  
MA 309

**Instructor:** Jeffrey Cohen

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**Office Hours:** Wednesday; 12:30-2:45. Other hours by appointment. Please do not be offended if other obligations prevent me from meeting with you if you drop in without an appointment. I am sure that we can arrange another time to meet that will be convenient for both of us. I also strongly urge you to communicate at any point via email.

### Course

**Objectives:** There has never been a time in our profession where there has been such a revolution in the way auditing operates and the way in which auditing is perceived by the external public. Our course is anchored by the overarching principle of maintaining in auditing **professional skepticism**. We will attempt to get the “big picture” of auditing to understand what are the competing pressures that auditors face. For example, how do we reconcile that auditing is both a “public good,” as well as being a lucrative business. We will also spend a large amount of effort understanding the general procedures of auditing. However, for students going into auditing, you will learn more about the nuts and bolts of auditing after one week on the job than what you can learn in a year at school. Further, there is never a need to memorize in the profession as auditors in the “real world,” will have access to a vast amount of supporting software, firm specific auditing procedures and the ability to search and ask for information from your audit team members. Thus, at all times we will emphasize what does it all mean, how did the profession get here and where will it go in the future. For example, when learning controls, we will understand what controls we will be looking at, attempt to evaluate sets of controls and to understand why we are evaluating the controls from a risk perspective. We will also evaluate if auditors and regulators are in conflict with each other and we will need to evaluate why this occurs. Since auditing is a monopoly, we need to emphasize how and why independence is so important. Auditing is a wonderful profession but since it is performed by human beings we need to understand why we need to be vigilant in our professional skepticism. At the end of the course, I will consider it a success if you simply remember that when following the principle of **professional skepticism**, the most important question an auditor can learn to ask is the question “WHY?”

**Books and readings:** Messier, Glover and Prawitt. *Auditing and Assurance Services: A Systematic Approach*. Irwin McGraw-Hill, Customized text, 2006.  
Reading Packet  
Numerous articles from the press will also be emailed to you.

## **Readings and Cases:**

Articles will be distributed in class as well as emailed from the Web. These articles are intended to complement the textbook by presenting current events as well as state of the art perspectives. Auditing in the “real world,” is conducted via a team approach. Accordingly, the ability to effectively perform group work is essential and is emphasized in the class. We will often break into groups to master homework and class material. Cases will be used to emphasize the "real world". All students are strongly encouraged to find relevant articles from the Internet that may be shared with the class.

## **Exam- worth 33 and 1/3 %**

There will be one exam that will involve conceptual essays and real world cases. No multiple-choice questions will be given. To encourage creative learning and not memorization, students will be allowed to bring one page with two sides of notes to the exam. There will be no final exam as mastery of the material is an ongoing process and the larger emphasis is placed on working with groups and being able to communicate effectively.

## **Project-worth 33 and 1/3 %**

We will form student groups of exactly four people in a group (a fifth may be added if there are “leftovers” No groups larger than five are ever permissible!). The project will entail researching a specific auditing issue, auditing standard, a component of legislation or any other auditing topic you propose. You are required to examine both the practitioner and academic literature to determine why the issue is important, what has been done and what should or could be done to enhance the auditing profession. You must also discuss how this issue is being dealt with on an international basis. You are required to submit an outline at least three weeks before the due date. This will ensure that you will be on the right track.

You are required to interview (phone interviews are acceptable) at least two individuals currently working or who have worked in public accounting at the rank of senior or above to get reactions from practitioners on the issues in the paper. I would like you to incorporate the notion of “**professional skepticism**,” and the need for auditors to maintain independence in appearance as well as in fact. The final product will be a paper of minimum of ten pages and a maximum of 20 pages (using one and a half spaces, 12 point font). Note, I have access to a plagiarism software tool and it will be used. Any plagiarism will result in an “F” in the course and notice given to the Dean’s office. You will also make a presentation of approximately 15 minutes with an executive summary distributed to the whole class at least 48 hours before the presentation. The presentations will be held on April 26 and May 1. The paper will be handed in on May 1’st. Anybody who is a slacker will be kicked out of the group and will have to prepare the paper on an individual basis with a *minimum* of a full grade marked down.

## **Homework:**

Homework will be **primary** basis for class discussion. Therefore, you must attempt all homework problems **before** class. Group work on homework is strongly encouraged. There will be a number of cases used to illustrate the material. Be forewarned, cold calling will be in effect. No class participation credit will be given unless a student attempts virtually (maximum of three excused/unexcused misses) all homework before class. An honor code will be in effect.

To access solutions and other course materials please go to the following link

<http://jeffnyy.pageout.net>

Select Auditing then Course Content to view your course and supplemental material by Chapter.

## **Cases:**

**Worth 33 and 1/3 %**

Accounting is communication; the rest is a footnote. Since the only way to enhance these skills is to practice them, you will have an opportunity to do so in this class with a number of cases. There will be four formal cases assigned throughout the course. The first three cases are group cases while the last one (due on the last day of class) will be done on an individual basis. Additional cases will be used to illustrate the material. The write up for all the cases should be **approximately** five to seven pages (excluding tables and references). You should use 12 point font and one and a half spacing. Groups will be randomly called upon to help present the facts and participate in role-playing. Since teamwork and cooperation are important, all cases must be done by groups of **four people only** (the only exception will be to place the extra class members). I strongly encourage diversity in the composition of the groups. If this is not achieved, I will randomly assign students to groups. All cases will be handed back within two class sessions. To prevent slackers and free riders, group members can expel nonperformers from a group. Slackers will do all the remaining cases on an **individual** basis with the same expectations for quality as I would expect from a full group effort. Students will have input at the end of the semester **during the last day of class** for honest and anonymous feedback on group members. This required feedback will affect the case grade on the margin-e.g., the very best and the very worst **will** have their case grade adjusted.

### Grading:

|         |            |
|---------|------------|
| Exams   | 1/3        |
| Project | 1/3        |
| Cases   | <u>1/3</u> |
|         | 100%       |

Up to a **MAXIMUM** of 20 per cent of the class will receive a participation credit and those students who earn participation will be exempt from the last case and will receive a grade of an A (a 95) for that case. The top two participants, defined in terms of **both** quality and quantity, will automatically receive an “A” in the course. My expectation is that if we are serious in the course, the median grade will be between a B and a B+. For those who are “shy,” feel free to email me before class your summary of the readings, homework and sharing of ideas that I can distribute to your classmates that will demonstrate a significant effort at “participation.”

### Feedback:

Since the world of Auditing is in constant flux, the class will be a learning process for all of us. I am aware that is **your** class and that the goal is for you to learn and not for me to pontificate, act superior (I am a Yankees fan and yes I was humbled by the events of 2004) or to bore you silly. The communication and feedback should be a two-way between the class and the instructor. To facilitate this feedback, I would like to have a vehicle for timely anonymous feedback and to develop and distribute a mid-semester formal feedback questionnaire. On a strictly voluntary basis, I would thus like approximately once a month during the semester for you to email me your assessment of the following three questions: (1) What was the most significant thing you learned since your last feedback? (2) What question is uppermost in your mind since your last feedback? (3) What is the muddiest point I attempted to teach since your last feedback? By answering these questions, you will help me stay in touch with the pulse of the class. I

will also distribute a mid-semester feedback form. The presence of this feedback, however, does not preclude any student from coming to me individually with concerns or thoughts on the course.

## Homework Problems and Cases from Messier, Glover and Prawitt

Date due to be announced before each class. Homework must be attempted **before** class. To facilitate preparedness, cold calling will be in effect. Group work is strongly encouraged.

| Approximate Date       | Problems and Cases   |
|------------------------|--|
| January 18, 23         | 1-1, 1-7, 1-24, 1-25   |
| January 25             | 2-2, 2-6, 2-8, 2-32, 2-33  |
| January 30, February 1 | 3-1, 3-2, 3-8, 3-10, 3-26, 3-27, 3-29, 3-31  |
| February 6             | Enron Case   |
| February 8             | 4-2, 4-6, 4-8, 4-23, 4-24, 4-26, 4-28, 4-30  |
| February 13            | 19-1, 19-10, 19-14, 19-29, 19-35, 19-36  |
| February 15, 20        | Babyboomers, Inc. and Precision Systems Cases,<br>5-3, 5-30, 5-37, 5-40 and Catch Up |
| February 22            |  |
| February 27            | 6-11, 6-28   |
| March 1                | 6-30, 6-32   |
| March 13               | 7-9, 7-12, 7-31, 7-33  |
| March 15               | 7-36   |
| March 20, 22           | 8-1, 8-3, 8-5, 8-21, 8-24, 8-31, 8-32  |
| March 27               | Exam   |
| March 29               | 10-3, 10-4, 10-24, 10-27, 10-32  |
| April 3                | 10-33, 10-34   |
| April 5                | 13-5, 13-31, 13-32, 13-33 and Doughtie's Food Case                                   |

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|-----------------|---|
| April 10        | 17-1, 17-3, 17-7, 17-23, 17-26, 17-30                         |
| April 19        | <i>ZZZ</i> Best Case  |
| April 24        | 18-4, 18-10, 18-31, 18-32, 18-36, 18-37 and Giant Stores Case |
| April 26, May 1 | <b>Presentations</b>  |
| May 3           | Dynamic Data Case-to be handed in individually                |

## Course Schedule and Reading Lists

**Note:** Discussion Questions are meant to provide you with some guideline in reviewing the material. The objective in reviewing the readings is to get the major themes of the articles and not the miniscule details.

| Date   | Chapter and Topic (from Messier, Glover and Prawitt)  | DQ- Discussion Question  | Additional Required Readings   |
|--|---|--|--|
| January 18, 23, 25                                       | <b>Section 1 of Course: Introduction to Auditing and the Audit Environment</b> (Ch's 1, 2, 3, Corporate Governance&19)<br>Ch. 1, "An Introduction to Assurance and Financial Statement Auditing,"<br>Ch. 2 "The Financial Statement Auditing Environment" | DQ- Why is independence such an important standard for auditors?<br>Discuss why there is a demand for auditing services in a free market economy?                  | <ol style="list-style-type: none"> <li>1. Ian McDonald, "Ahead of the Tape," <b>Wall Street Journal</b>, November 2004.</li> <li>2. Case, Beasley et al., "A Day in the Life of Brent Dorsey: Staff Auditor Professional Pressures." 2004.</li> <li>3. Case, Knapp, "Hamilton Wong: In-Charge Accountant," 2004.</li> </ol>                    |
| January 30, February 1<br>Happy Ground Hog day tomorrow) | Ch. 3 " Basic Auditing Concepts: Risk Assessment, Materiality and Evidence."  | DQ-Why would the litigation environment in different countries affect the way auditors consider risk?<br>Why is materiality sometimes in the eyes of the beholder? | <ol style="list-style-type: none"> <li>1. "The New Importance of Materiality, <b>Journal of Accountancy</b> May 2005.</li> <li>2. Case, Knapp, The Fund of Funds, Ltd.," 2004.</li> </ol>  |
| February 6   | Corporate Governance  | DQ-Has Sarbanes-Oxley lived up to expectations?  | <ol style="list-style-type: none"> <li>1 Case, "Enron Corporation"-<b>to be graded</b></li> <li>2 Sarbanes-Oxley Act</li> <li>3 Cohen, Krishnamoorthy and Wright, "Corporate Governance and the Audit Process." <b>Contemporary Accounting Research</b> Winter 2002.</li> <li>4 "Called to Account," <b>The Economist</b> Nov 2004.</li> </ol> |

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| February 8  | Ch. 4, "Audit Evidence and Audit Documentation,"  | DQ-How do we evaluate the reliability of different types of evidence?<br>Is the type of evidence collected affected by the nature of the relationship between the auditing firm and the management of a client? | 1. Case, Knapp, "Crazy Eddie, Inc," 2004.   |
| February 13<br>(Happy Valentine's Day tomorrow)                       | Ch.19, "Professional Conduct, Independence and Quality Control,"  | DQ-Can auditing survive as a profession and also as a successful business?  | 1. Imhoff, "Accounting Quality, Auditing and Corporate Governance," <b>Accounting Horizons</b> , Supplement 2003.<br>2. Case, Knapp, "The PTL Club," 2004.  |
| February 15, 20   | <b>Section 2 of Course: Audit Evidence</b> (Ch's 5, Research and Practice, 6, 7, & 8 )<br>Ch. 5, "Audit Planning and Types of Audit Tests," | DQ-Why is the client acceptance and retention process so crucial for a firm interested in minimizing engagement risk?   | 1. Case, Cohen and Trompeter, "Babyboomers, Inc." <b>Issues in Accounting Education</b> , Fall1997, and do background on client acceptance and continuance process and how and why the process has changed post-Enron <b>both to be graded.</b> |
| February 22   | Research and Practice   | DQ-Why is there a need, if any, to expand on the collaboration between research and the profession?   | 1. Bell and Wright, "Auditing Practice, Research & Education,"  |
| February 27, March 1<br>(Spring Training begins-Hope springs eternal) | Ch. 6, "Internal Control in a Financial Statement Audit,"   | DQ-Why are internal controls <b>the</b> fundamental building block to a high quality financial reporting process?   | 1. Kroll, More Talk, More Action," <b>Journal of Accountancy</b> , May 2005.<br>2. Case, Knapp, The Trolley Dodgers," 2004.   |

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| March 13, 15<br>(Beware the Ides of March)                    | Ch. 7, "Auditing Internal Control over Financial reporting in Conjunction with an Audit of Financial Statements,"   | DQ- What are the benefits and the costs to requiring auditors to report on internal controls?<br>Why is fraud so difficult to detect? | <ol style="list-style-type: none"> <li>1. Wilks and Zimbelman, "Academic Research and Auditors' Detection of Fraudulent Financial Reporting,"</li> <li>2. SAS 99</li> <li>3. Ge and McVay, "The Disclosure of Material Weaknesses in Internal Control after the Sarbanes-Oxley Act," <b>Accounting Horizons</b>, September 2005.</li> <li>4. Case, Knapp, "Triton Energy, Ltd.," 2004.</li> </ol> |
| March 20, 22  | Ch 8, "Statistical and Nonstatistical Sampling Tools for Auditing,"<br>Catch Up and Review.   | DQ-Why haven't academic statistical methods been more widely adopted in practice?   |   |
| March 27  | <b>EXAM</b>   | <b>EXAM</b>   | <b>EXAM</b>   |
| March 29, April 3<br>(Happy Start of Baseball Season)         | <b>Section 3 of Course: Audit Evidence for Specific Cycles</b> (Ch's 10, 13& 17)<br>Ch. 10 "Auditing the Revenue Cycle,"  | DQ-How can companies use revenue recognition issues to manage their earnings?   | <ol style="list-style-type: none"> <li>1. Case, Cohen, Krishnamoorthy and Wright. 2006 working paper, "Waste is Our Business Case"-only answer questions, 1, 3, 4 and 5.</li> </ol>   |
| April 10<br>(Enjoy your Easter break and the Boston Marathon) | Ch 13, "Auditing the Inventory Management Process,"   | DQ- Why are inventory valuation disputes so common between auditors and their clients?  | <ol style="list-style-type: none"> <li>1. Case, Knapp, "Doughtie's Food, Inc." 2004.</li> <li>2. Case, Knapp, "ZZZ Best," 2004.</li> </ol> <b>- to be graded</b>  |
| April 19  | Ch 17 "Completing the Engagement,"  | DQ- Should auditors be held more responsible when subsequent fraud is uncovered?  | <ol style="list-style-type: none"> <li>1. Copeland, "Ethics as an Imperative," <b>Accounting Horizons</b>, March 2005.</li> </ol>   |
| April 24  | <b>Section 4 of Course: Is it the End of Audit as we Know it? Audit Evidence for Specific Cycles</b> (Ch's 18 and Presentations)<br>Ch 18, "Reports on Audited Financial Statements," | DQ-Why may one consider the final set of audited financial reports a product of negotiations between auditors and their clients?      | <ol style="list-style-type: none"> <li>1. Case, Knapp, "Giant Stores Corporation ," 2004.</li> <li>2. Gullapalli, "Hurricane Katrina is "Ordinary," <b>Wall Street Journal</b>, September 2005.</li> </ol>  |
| April 26, May 1<br>(Happy May Day)                            | <b>Presentations</b>  | <b>Presentations</b>  | <b>Presentations</b><br>Hand in paper on May 1'st.  |

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| <p>May 3<br/>(Happy Rest<br/>of Your Life)</p> | <p>Wrap Up</p> | <p>Prepare questions from<br/>case.<br/>DQ-Will an effective<br/>corporate governance<br/>system inhibit unethical<br/>behavior?</p> | <p>1. Case, Cohen, Krishnamoorthy<br/>and Wright. "Dynamic Data"<br/><b>Issues in Accounting Education</b>,<br/>February 2005.-<b>to be graded and<br/>to be done individually</b></p> |
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