

AUDITIING

Fall 2005

Paul D. Neuwirth

Text: Auditing and Assurance Services, An Integrated Approach, Eleventh Edition, by Arens, Elder and Beasley, Prentice Hall, 2006.

The companion web site for the text can be found at:
www.prenhall.com/arens

Class Hours: 4:30 PM to 6:00 PM
Tuesday and Thursday
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AUDITING

OVERVIEW OF THE COURSE

This course provides a comprehensive look at the public accounting profession and the independent audits CPAs perform of their clients' financial statements. Emphasis of the course is on the auditor as a professional person making his or her way in a field that is in a state of major change, the current environment of change in public accounting, what is a financial statement audit and how the audit is planned and conducted, preparation of the auditor's report, the auditor's responsibilities to meet professional standards and the auditor's responsibility to the financial communities and to society.

The textbook used this semester is a standard work for students, now updated and just newly published in its *11th edition*. As you become familiar with it, you will find it a fine resource and it may become a valued part of your personal library for some years. As new as the text is, because of the current dynamism of the world of auditing, some parts are already outdated. These changes will be discussed in class and supplemental materials given to you to keep you up to date with current happenings.

The "Integrated Approach" of the text weaves together auditing concepts, internal control issues and testing of balance sheet balances and income statement transactions so that you can learn to make decisions about the nature, extent and timing of auditing procedures and, ultimately, determine if the client's financial statements conform to generally accepted accounting principles.

The "authoritative" and definitive guidelines for auditing by independent certified public accountants currently can be found in two places. Statements on Auditing standards (SASs), are published for practitioners by the American Institute of CPAs. The SASs have been codified by subject under each of the ten generally accepted auditing standards that are the overarching parameters which have governed the conduct of financial statement audits for the last several decades.

The SASs, intended as references for the professional, address only the subjects on which, from time to time, there has been a need for clarification. Your text authors refer to the SASs within various chapters of the text.

The Sarbanes-Oxley Act of 2002 created the Public Company Accounting Oversight Board. It has the authority to make rules to govern the work of

auditors of public company financial statements. The course will cover the work of the PCAOB and how it affects the public accounting profession.

For audits of financial statements of companies whose shares are *publicly traded*, pronouncements of the PCAOB are the final authority on matters of auditing and accounting. For audits of private entities, the pronouncements of the AICPA (through its SAS's) are the ultimate authority on auditing standards.

To date, unless specifically addressed by the PCAOB, auditing and accounting standards set by the AICPA remain the standards for both public and private companies.

Organized for an introductory course in Auditing, the text imparts basic concepts and principles and builds on them as a foundation to reach the practical "how to do it" techniques of auditing. The text is the considered judgment of individuals recognized generally for their sound approach to the subject.

You will find it useful, and necessary to achieve a complete understanding of the course materials and commensurate highest grades, to consider the text, homework problems and class discussions as parts to be integrated by you to make up the whole of the course.

Class discussion often will not follow the order of the chapters of the text, although, during the semester, we will cover most of the book material. After approximately the first three weeks of classes, during which we will cover foundation topics and general principles, we then will discuss the specifics of what auditors do on the job. We will follow the order of financial statements; that is, how to audit assets, then liabilities and capital, then income and costs. Where appropriate, discussion of the audit of a balance sheet item will be coupled with the audit of related liabilities and/or income statement transactions.

The public accounting profession owes much of its success to its adaptability to the changing requirements of the users of financial statements. The literature and methodology of the profession change and expand continually, making it impossible for even the newest textbooks to be absolutely current.

The auditing issues emerging in the bankruptcy of Enron and WorldCom, the audit failure at The Baptist Foundation, the demise of Arthur Andersen LLP, the apparent fraud at Parmalat and other business and auditing matters in the news currently and over the past five years have had a profound effect on auditors' independence and services. These will be noted and discussed in class.

Some people now look less respectfully, than in past years, at the profession of auditing and at auditors. We will address the reasons for and the validity of the change in public opinion. We will also review the continuing legal requirements and social needs for auditing and how the profession is coping in the current environment.

This is a course in auditing theory. The profession is in a state of change. Not all of the issues facing auditors have current generally accepted solutions, necessitating your being able to live with some ambiguity until authoritative answers are available. Even without a laboratory (or "practice set") and without doing fieldwork, the course is designed to give you the theoretical underpinnings of auditing and as much clinical work as possible.

This is your course. It will become what you make of it. Classroom discussions are encouraged. You are urged to voice your opinions, to raise questions and to participate fully in the give and take of each class. The Socratic question and answer style will help you participate. To the extent the number of students registered allows for it, we will style our class time more towards a seminar rather than to full periods of lecture.

HOMEWORK

Homework assignments are, in the main, from the text. During the semester, you will be assigned additional reading or problems from other sources. You should complete homework by the due dates. Some homework problems may be reviewed in class. For those problems not reviewed in class, model solutions will be given to you for comparison with your approach and to help you check your solutions.

Homework problems will not be collected or graded; however, you are always welcome to submit your written solutions for review and critical comment. If you wish, you may solve text questions not assigned. Your solutions, if turned in for review, will be read, commented on and returned to you for study.

To achieve the highest grades in the course and to learn and retain the maximum amount of course material, you are urged to do all of the assigned reading and homework in accordance with the dates shown in the syllabus. Experience in the course by students over the last five years has shown that without concurrent completion of homework, achieving the highest course grades is less likely.

EXAMINATIONS

An in-class mid-term examination will be held at session #14. There will be a final examination during Finals Week. Both examinations are cumulative, covering text, homework and class discussion matters to date. The exams are not "open book" style. If you have special requirements for taking exams, please make them known to Mr. Neuwirth before the tests are given.

GRADING

In the main, your final grade is dependent on the time and effort you put into the course. Your final grade will be based on the numerical average of your mid-term and final examination scores. Examination scores and final grades are not curved.

<u>Examinations average</u>	<u>= Grade of</u>
97, 98, 99, 100	A+
93, 94, 95, 96	A
90, 91, 92	A-
87, 88, 89	B+
83, 84, 85, 86	B
80, 81, 82	B-

77, 78, 79	C+
73, 74, 75, 76	C
70, 71, 72	C-
etc.	

Because the course covers a defined body of knowledge, students in prior years have found that earning the highest grades is directly proportional to the time spent in study of the course materials.

CONSULTATIONS

Mr. Neuwirth is available to answer your questions beyond classroom hours. Contact Paul Neuwirth by e-mail at: PhillyCPA@aol.com

If a conference is appropriate, it can be scheduled at your convenience at Mr. Neuwirth's Accounting Department office on campus at Steinberg/Dietrich Hall or at his Center City office at 20th and Market Streets

**AUDITING
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Class #	Major Class Topic	Text Assignments*	Text Questions
1	Introduction		
2	Auditors' report	Chapter 1	1- 1, 7, 8, 14, 17, 18
	Generally Accepted Auditing Standards	Chapter 2 Chapter 3	2- 7, 8, 9, 12, 16 3- 1, 3, 5, 14, 26
3	Professional ethics	Chapter 4	4- 22, 23, 24
4	Legal responsibility and liability	Chapter 5	5- 16, 17, 18,23
5	The audit process	Chapter 6 Chapter 7	6- 21, 22, 23, 26, 27 7- 31, 32, 35
6	Planning the audit Audit risk	Chapter 8 Chapter 9	8- 28, 31, 32 9- 25, 26, 28, 29
7	Audit risk Internal control	Chapter 10	10- 1, 3, 4, 6, 10, 11, 20, 21, 26, 31, 33, 38
8	Fraud auditing IT and the audit process	Chapter 11 Chapter 12	11- 24, 25,
9	Audit program Audit of cash	Chapter 13 Chapter 23	13- 25, 30, 34, 36 23- 18, 21, 24
10	Audit of accounts receivable	Chapter 16	16- 20,21, 27, 28, 31
11	Audit of accounts receivable		

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Class #	Major Class Topic	Text Assignments*	Text Questions
12	Audit of inventories	Chapter 21	21- 6, 7, 9, 12,
13	Audit of inventories		21- 26, 28, 30
14	Mid-term examination		
15	Audit of prepaid expenses & deferred charges	pp. 620-622	20- 7, 8, 9
16	Audit of property, plant & equipment	pp. 612-620	20- 3, 21, 22
17	Audit of other assets		
18	Audit of current liabilities	Chapter 19	19 27, 29, 30, 31
19	Audit working papers	pp174-184	
20	Audit of long-term debt and equity Letters to attorneys	Chapter 22 pp. 714-716	22-1, 3, 9, 20
21	Client rep. letters, atty. Contingent liabilities Subsequent events	pp. 720-722 pp. 712-716 pp. 717-720	24-2, 6, 25, 26, 27
22	Audit of sales Audit of cost of sales	Chapter 14 pp. 582-592	14- 25, 27, 30
23	Audit of other income statement accounts	Chapter 18	18-1, 13,15,17,18
24	Marketing of professional services		

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Class #	Major Class Topic	Text Assignments*	Text Questions
25	The future of the profession		
26	Open for review		

* Additional readings and homework from professional journals, The Wall Street Journal, and other sources will be assigned during the semester.