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### ACTG 411.01: Auditing I

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ACTG 411 Auditing I (3 cr), Spring 2016  
Sec 01: TR 09:40-11:00, GBB 222  
Sec 02: TR 11:10-12:30, GBB 222  
Office Hrs: MW 9:30-11:00 and by appt.

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## Welcome

**Welcome to Auditing I** This course is required if you are (a) majoring in accounting, (b) obtaining the AIS certificate, (c) wanting to enter the MAcct, or (d) wanting to take the CPA exam. We love auditing, and we look forward to teaching this course for a number of reasons. First, both of us have practical backgrounds in the audit profession. Professor Herron's practical experience is in auditing as an audit manager for KPMG, returning to KPMG for a sabbatical after teaching Auditing at UM for a while. Professor Crawford's practical experience is as a senior level audit partner in KPMG's Department of Professional Practice. We have seen auditing in practice. Second, it is unlike all your other accounting courses. It is highly analytical but not in a quantitative way. Auditing is based largely on judgment of whether a client properly applied GAAP (or some other accounting framework). This means auditors must be GAAP experts and have a sound understanding of audit concepts and their application to different situations. This is largely a conceptual course, but it is very logical. This means common sense in ambiguous scenarios will take you a long way. Third, we are both CPAs, and external independent auditing is the only professional service that is legally restricted to licensed CPAs. Thus, we do focus a bit more on the CPA angle of things. That said, what you learn in this course will benefit you if you go into other fields. Most companies or nonprofits of any size have audits at some point, and all governments do. Many business and government entities have internal auditors. Auditors are a fact of life.

**Advice for the Auditing I Student** Read the chapters, and do not get behind. This is not a course where you can look up "how" to do something in the book. You need to read the chapter first to understand the concepts, and then we will ask you to apply them. Do the multiple choice homework and study guide questions posted in Connect. Finally, please make a habit of coming to see one of us if you are tripped up or confused at all. While we can look at the gradebook, this does not give us an insight into exactly where a student or class is having trouble. You need to tell us. So....here we go!

**Co-Teaching Model** We are co-teaching this class, each taking the lead on different chapters. Sometimes the instructor not leading the chapter will come to class to observe. The lead instructor will conduct classes, assign homework, and write quizzes applicable to chapters s/he is leading. Both of us will write exams. Though you can see either of us for questions, please direct chapter-specific questions to the lead instructor for that chapter. We have set matching office hours for student convenience.

## What You Will LEARN

***Catalog Description*** ACTG 411 Auditing I – Prereq., junior standing in Business, ACTG 321 and ACTG 306, or consent of instr. Introduction to auditing with emphasis on the independent audit of financial statements. Coverage includes professional standards, ethics, audit risk, evidence, internal controls, procedures, opinions, operational and compliance auditing. It is not offered wintersession.

***Program Mission Statement and Learning Goals*** The University of Montana’s School of Business Administration enhances lives and benefits society by providing a world-class business education in a supportive, collegial environment.

We accomplish this mission by acting on our shared core values of creating significant experiences, building relationships, teaching and researching relevant topics, behaving ethically, and inspiring individuals to thrive.

As part of our assessment process and assurance-of-learning standards, the School of Business Administration has adopted the following learning goals for our undergraduate students:

1. SoBA graduates will possess fundamental business knowledge.
2. SoBA graduates will be able to integrate business knowledge.
3. SoBA graduates will be effective communicators.
4. SoBA graduates will possess problem-solving skills.
5. SoBA graduates will have an ethical awareness.
6. SoBA graduates will be proficient users of technology.
7. SoBA graduates will understand the global business environment in which they operate.

In addition, the Department of Accounting and Finance prepares ethically aware decision makers with effective analytical and qualitative business knowledge and skills to become professionals in their respective fields. We commit to high quality teaching and applying scholarship to professional practice and theory. The undergraduate accounting program is committed to preparing students to apply accounting and business knowledge in organizations. The accounting faculty have adopted the following learning goals for our undergraduate accounting students:

1. Accounting majors will possess fundamental accounting knowledge.
2. Accounting majors will be effective writers.
3. Accounting majors will critically analyze and solve problems, using technology where appropriate.
4. Accounting majors will understand the importance of ethics to the accounting profession and demonstrate ethical decision making.

***Course Learning Outcomes*** At the completion of this course, a successful student will be able to:

- Describe the relationship between **attestation, assurance, and auditing** engagements and their roles in society
- Understand the role of **ethics**, the Code of Professional Conduct, professional skepticism, and professionalism in the profession
- Identify important **audit standard-setting** bodies and processes
- Understand **generally accepted auditing standards**
- Write the standard **audit report** and understand when standards require variations from it

- Understand the distinct **steps in the audit process**, including how activities in different phases of the audit relate to one another
- List and explain management’s financial statement **assertions**, and relate audit objectives to management assertions
- Define the elements of **audit risk**, their relationship to one another, and how internal and external factors impact the elements of audit risk
- Thoroughly understand **best practices for internal control** and how internal controls relate to audits of both public and nonpublic entities, including the impact on the audit of ineffective controls on audit risk components
- Differentiate audit standards and requirements for **public company versus private entity** audits
- Understand the auditor’s responsibility with regards to **fraud**
- Identify and associate **audit procedures** in a particular area with risks, management assertions, and audit objectives for the area
- Identify required audit **communications** and **documentation**
- Understand **current events** impacting the audit profession
- Articulate how auditors are **regulated in the U.S.**
- Perform work and make judgments under **time pressure.**

**Professional Exams** Material covered in this course is also on a number of professional certification exams. The CPA, CIA, CISA, and CFE exams all include concepts from this course to some extent. This course covers most, but not all, of the material tested on the Auditing section of the CPA exam. Students desiring to take the CPA exam may obtain the additional information by self-study using CPA review materials or by taking an Advanced Auditing course as a graduate student accepted to our MAcct.

**How You Will Learn and Be Assessed**

**Grading** Students will be assessed through weekly quizzes, exams, and assignments. Grades are determined using a **weighted average, not a straight average.**

	Undergrads	Grads
Quizzes	15%	14%
Exam 1	15%	14%
Exam 2	15%	14%
Exam 3	15%	14%
Comprehensive Final Exam	25%	25%
Graded Assignments	15%	14%
Graduate project and presentation	n/a	5%
Total	100%	100%

Grading rules:

1. This course must be taken for a letter grade. CR/NCR grading is not permitted.
2. The plus/minus grading system will be used in this course. Earning the following percentages (weighted average) in the course will guarantee you the corresponding grade:

		B+	88.0%	C+	78.0%	D+	68.0%
A	92.0%	B	82.0%	C	72.0%	D	62.0%
A-	90.0%	B-	80.0%	C-	70.0%	D-	60.0%

3. Individual exams and assignments will not be curved. Grades will be curved upward, if necessary, at the end of the course (most years there is no or only a tiny curve).
4. **Course grades are not negotiable, regardless of the consequence of the grade you earn.**
5. Extra credit is not available unless we identify a unique opportunity that is open to all students in the class.
6. Per UM policy, change of grading option to audit is not allowed after the 15th instructional day (Feb 12<sup>th</sup>), and we must agree to it. We will allow it only if the student does not need the credit for their degree or CPA license and they contact us by the 15<sup>th</sup> instructional day.
7. Accounting majors must take this course in residence at UM-Missoula.
8. **Students must earn a C- or better in this course for it to count in their major or the AIS certificate. If a student does not meet this requirement, they must retake the course in Spring 2017 since it is only offered each spring (online course transfers will not be approved).**

**Materials** Students are required to have the following materials and resources:

- **Custom book – selected chapters from *Auditing & Assurance Services, 6th edition***, by Louwers, Ramsay, Sinason, Strawser, and Thibodeau. This must be obtained from the UM Bookstore.
- **Connect access code**, which is included with the custom book package. The access code, if purchased separately, is more expensive than the bundle. So even if you have a used book, the package at the UM Bookstore is the best deal. This is the website where you can enter your access code: <http://connect.mheducation.com/class/411sp16>
- **Subscription to *The CPA Letter Daily***, an AICPA e-newsletter published early each weekday morning. This is free and a painless way to stay up with the profession. Sign up here: <http://www.aicpa.org/PUBLICATIONS/NEWSLETTERS/CPALETTERDAILY/Pages/default.aspx>. We also strongly encourage student membership in the AICPA, (free membership at <http://www.aicpa.org/MEMBERSHIP/JOIN/Pages/individual-memberships.aspx>).
- **UM email account** that you check daily (see policy on email below)

**Connect Homework** Each chapter has a collection of multiple choice questions to be completed via the online Connect homework system. Due dates for these are always **11:59pm the night before class**. No late submissions will be accepted, so allow plenty of time to complete the assignment with room for computer issues. Connect points are part of the “assignments” part of your grade.

**Written Assignments** Written assignments are collected for a grade and may be completed during or outside of class, depending on the assignment. Assignments completed in class cannot be made up if you are absent unless you have an excused absence (see Exam section for definition). Students should demonstrate pride in all their work. **You should type all work products unless otherwise noted.** Auditors spend much of their day documenting their audit findings. Every written assignment should be of a quality you would be proud to have reviewed by a partner or boss or to submit to a client. Assignments should be free from grammatical and spelling errors, and we will deduct points if they are not. Please carefully proof your work.

**Practice** For each chapter, multiple choice questions are assigned in Connect for assignment points (see above). In addition, the study guide questions are posted in Connect to use as practice as much as you wish. There are no points allocated to the Study Guide questions, and completion is at your discretion. We strongly suggest you review the multiple choice and Study Guide to prepare for exams. We do not devote class time to them, but you may see us if you have questions.

**Quizzes** Quizzes are given most Thursdays – except for exam weeks – for a total of 10 quizzes. The top eight quiz scores will be retained (your lowest two quiz scores are dropped). Missed quizzes are scored as a zero and cannot be made up unless it is an excused absence (see Exam section for definition). In other words, if you miss two quizzes for any reason, those two zeros would be dropped. If you miss more than two quizzes, they will be recorded as zeros. Please use your two dropped quizzes wisely to maximize your overall quiz average. Note that quizzes are short and usually at the beginning of class. If you arrive late, you will not be allotted extra time. We also do not allow students to take the quiz and leave for the rest of class unless there is an unusual circumstance approved ahead of time.

**Exams** Students must take exams on their regularly scheduled days with their section unless they have an excused absence. **Excused absences** ONLY include (1) University-approved absences with documentation, (2) documented health emergencies, (3) civil service such as military duty and jury duty, and (4) other emergencies deemed appropriate by the instructor. In all cases, you must notify one of us prior to the exam unless the emergency makes such notification infeasible.

Exam policies are:

- During the exam, you may not leave the room for any reason. Doing so results in the conclusion of your exam. Please take care of personal business prior to class.
- Electronic dictionaries, translators, cell phones, tablets, laptops, notes, iPods, or other assistive items are not allowed.
- Students may be using Scantron forms that we provide to complete a portion of the exam, and the Scantron form must be completed prior to the exam end time. For these questions, only answers on the Scantron are graded, so complete it with care to avoid lost points.
- Exams must be taken during the regular class period. Makeup exams are not administered unless you have an excused absence (see above). You may not listen to iPods or other audio devices during an exam.
- You may not disclose any information about the exam to a student who has not yet taken the exam. This is considered an act of academic misconduct and will result in both parties receiving a zero on the exam.
- You may be asked to sign an honesty pledge on exams.

**Participation** Immediately upon becoming an auditor, you will be expected to make judgments and be able to discuss issues with supervisors. Thinking on your feet is a critical auditor skill. We expect you to contribute and participate during the class period. We will call on students if the class is feeling particularly shy.

**Office Hours** We each have regular office hours (see hours listed at top of syllabus) to help ACTG 411 students (see Co-Teaching section above). We will post office hour adjustments in Moodle as an announcement, via email message and/or outside our offices.

### ***Rules of the Road***

**Prerequisites** ACTG 411 serves as a capstone for accounting majors. Auditors must be GAAP and internal control experts. Students enrolled in ACTG 411 must have completed ACTG 306, ACTG 321, and all lower business core or be a PMAC or MAcct student who has been advised to take the course. Because we were unable to offer ACTG 321 last semester, we are allowing graduating seniors to

concurrently take ACTG 411 and 321 this one time. We are coordinating with the ACTG 321 instructor to best accommodate this situation for this one time only.

**Adds/Drops** Feb 12<sup>th</sup> is the last day to add the course without instructor approval. Makeup work for late adds will not be offered. Feb 12<sup>th</sup> is also the last day to drop the course without instructor approval or change to “audit” option. Per UM policy, we will approve drop slips through **March 28<sup>th</sup>** without documentation. After March 28<sup>th</sup>, students must petition to drop the course (grade=WP only for 70% or higher). We follow University and departmental policy for petitions. Thus, we will not approve petitions to drop after March 28<sup>th</sup> unless the student meets the requirements in the UM catalog, which states, “Documented justification is required for dropping courses by petition. Some examples of documented circumstances that may merit approval are: accident or illness, family emergency, or other circumstances beyond the student's control.” Please note that poor academic performance and its consequences are not valid reasons for petition approval.

**Drops – Graduate Credit** Graduate students wishing to take ACCT 411 for graduate credit must complete a project/research assignment and presentation. We will provide the materials and details after we consult with those seeking grad credit. The assignment and presentation are worth 5% of your grade. It is the student’s responsibility to change credit status to undergraduate if the graduate option is not selected.

**Professional Conduct** Auditing is a professional endeavor. Students are preparing to become business professionals, and we expect professional behavior at all times. We also expect students to abide by the [SoBA Code of Professional Conduct](http://www.business.umt.edu/ethics/professional-conduct-code.php) (found online at <http://www.business.umt.edu/ethics/professional-conduct-code.php>). Treat class sessions like business meetings. Failure to adhere to these expectations may result in being asked to leave the classroom. Professionalism includes:

- attending class prepared for the day’s topic
- being prompt for class
- staying in the classroom for the entire class period – do not leave and come back
- keeping all cell phones or other communication/entertainment devices put away during class
- submitting all assignments on time
- treating all email correspondence as professional communications (see below)
- listening while others are speaking
- refraining from disruptive behavior, foul language, or engaging in off-task activities during the class period.

**Academic Misconduct** Research shows that students who cheat in college are more likely to commit fraud or illegal acts once they enter the business world. ***We strive to have 100% of our students committed to honesty in both academic and future professional situations.***

**All students must practice academic honesty.** Academic misconduct is subject to an academic penalty by the course instructor and/or a disciplinary sanction by the University. All students need to be familiar with the UM Student Conduct Code. The Code is available for review online at <http://life.umt.edu/vpsa/documents/Student%20Conduct%20Code%20FULL%20-%20UPDATED%20AUG%2028%202012.pdf>. It is YOUR responsibility to be familiar the Student Conduct Code.

In addition, SoBA has a Code of Professional Conduct. Provisions of this code apply to this class, so please be familiar with it (see section above).

To foster teamwork skills, some assignments may contain explicit instructions to complete in teams. Everything else is to be individual work. Use of any outside source (e.g., solution manual, other students' work, prior semesters' projects, other students' thoughts) on any assignment, including homework, will be considered academic misconduct and will result in a severe penalty including the possibility of a failing grade in the class.

**Email Communication** You should treat our email correspondence as if we were your client. All email communications should be professional in tone and content. A professional email includes a proper salutation, grammar, spelling, punctuation, capitalization, and signature. We strive to be timely in our email responses. If you email one of us during the week, you will almost always receive a response within 24 hours. According to University policy, faculty may only communicate with students regarding academic issues via official UM email accounts. Accordingly, students must use their UM accounts. Email from non-UM accounts will likely be flagged as spam and deleted without further response. To avoid violating the Family Educational Rights and Privacy Act, we will not discuss confidential information (including grades and course performance) via phone or email.

**Disability Accommodations** Students with documented disabilities may request reasonable modifications by contacting us. The University of Montana assures equal access to instruction through collaboration between students with disabilities, instructors, and Disability Services for Students (DSS). "Reasonable" means the University permits no fundamental alterations of academic standards or retroactive modifications. For more information, please consult <http://www.umt.edu/disability>. If you will be requesting an accommodation for a disability, you must provide one of us with a current letter from DSS early in the semester. Upon providing this documentation, we can meet to discuss the specific accommodations that are reasonable. We will not grant accommodations for non-DSS reasons.

**Incompletes** Policy per the UM catalog: "Incomplete grades are not an option to be exercised at the discretion of a student. In all cases, it is given at the discretion of the instructor within the following guidelines. A mark of incomplete may be assigned students when (1) the student has been in attendance and doing passing work up to three weeks before the end of the semester, and (2) for reasons beyond the student's control and which are acceptable to the instructor, the student has been unable to complete the requirements of the course on time. *Negligence and indifference are not acceptable reasons.*"



						Assignments		
						Connect HW is due at 11:59pm the night BEFORE class. Book and Other HW are due at the beginning of class.		
Lead Instructor	Day	Date	Quiz/Exam	Topic	Read	Connect	Book	Other
<b>PART ONE: ETHICS, STANDARDS, and PLANNING</b>								
Herron	T	Jan-26		Ch. 1 Audit/Assurance Services	Ch. 1			
Crawford	R	Jan-28	<b>Q1</b>	Ch. 2 Professional Stds	Ch. 2			Buy book, access Connect and Moodle
Crawford	T	Feb-02		Ch. 2 Professional Stds		Ch. 1, Ch. 2		
Crawford	R	Feb-04	<b>Q2</b>	Mod. B Professional Ethics	Mod. B			
Crawford	T	Feb-09		Mod. B Professional Ethics		Mod B	B.45	
Herron	R	Feb-11	<b>Q3</b>	Ch. 3 Engagement Planning	Ch. 3			
Herron	T	Feb-16		Ch. 3 Engagement Planning		Ch. 3	3.61	
	<b>R</b>	<b>Feb-18</b>	<b>Exam1</b>	<b>Ch 1, 2, 3, and Module B</b>				
<b>PART TWO: RISK</b>								
Herron	T	Feb-23		Ch. 4 Mgmt Fraud & Audit Risk	Ch. 4			
Herron	R	Feb-25	<b>Q4</b>	Ch. 4 Mgmt Fraud & Audit Risk		Ch. 4	4.67 (1-7)	
Both	T	Mar-01		Review of COSO/Computer Controls			4.58	you may complete 4.58 in pairs
Crawford	R	Mar-03	<b>Q5</b>	Ch. 5 Internal Control Evaluation	Ch. 5			
Crawford	T	Mar-08		Ch. 5 Internal Control Evaluation		Ch. 5	5.69	
Herron	R	Mar-10	<b>Q6</b>	Ch. 6 Employee Fraud & Audit of Cash	Ch. 6			
Herron	T	Mar-15		Ch. 6 Employee Fraud & Audit of Cash		Ch. 6	6.47	
	<b>R</b>	<b>Mar-17</b>	<b>Exam 2</b>	<b>Ch 4, 5 and 6</b>				
<b>PART THREE: PROCEDURES</b>								
Both	T	Mar-22		Guest Speaker				
Herron	R	Mar-24	<b>Q7</b>	Ch. 8 Acquisition & Expenditure Cycle	Ch. 8			
Both	T	Mar-29		PP&E Case -- meet in 213		Ch. 8		read prep for PP&E case
Both	R	Mar-31	<b>Q8</b>	PP&E Case -- meet in 213				
	T-R	Apr 5-7		<b>SPRING BREAK</b>				
Crawford	T	Apr-12		Ch. 7 Revenue & Collection Cycle	Ch. 7			
Crawford	R	Apr-14	<b>Q9</b>	Ch. 7 Revenue & Collection Cycle		ch. 7	7.63	
Both	T	Apr-19		Inventory and Wrap-Up	Partial Ch. 9	Inventory		
	<b>R</b>	<b>Apr-21</b>	<b>Exam 3</b>	<b>Ch 7, 8, and 9</b>				
<b>PART FOUR: REPORTING</b>								
Terri	T	Apr-26		Ch.11 Completing the Audit	Ch. 11			
Crawford	R	Apr-28	<b>Q10</b>	Ch. 12 Reports on Audited F/S	Ch. 12	Ch. 11	11.61	
Crawford	T	May-03		Ch. 12 Reports on Audited F/S		Ch. 12	12.51	
Crawford	R	May-05		Review for Final Exam				
	<b>W</b>	<b>May-11</b>	<b>Final</b>	<b>Comprehensive Final -- Section 01</b>	<b>8:00 AM</b>			
	<b>F</b>	<b>May-13</b>	<b>Final</b>	<b>Comprehensive Final -- Section 02</b>	<b>8:00 AM</b>			