



**Commerce 4AD3  
Introduction to Auditing  
Winter 2020 Course  
Outline**



**Accounting and Financial Services Management  
DeGroote School of Business  
McMaster University**

<b>COURSE OBJECTIVE</b>
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For those considering a career as a public accountant, this first auditing course will provide you with an understanding of the concepts of auditing and the auditing process and prepare you for the role of public accountant.

<b>INSTRUCTOR AND CONTACT INFORMATION</b>
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<b>Name:</b>	Yvonne Kwok, CPA, CA	<b>Office Hours:</b>	Thurs: 11:30 am to 12:30 pm or, by Appointment
<b>Office:</b>	DSB 418	<b>Course location:</b>	KTH 104 (C01, C02)
<b>E-Mail:</b>	<a href="mailto:kwokyv@mcmaster.ca">kwokyv@mcmaster.ca</a>	<b>Time offered:</b>	Tues 8:30 am-11:20 am
<b>Phone:</b>	905 525-9140		

**Course Website:** <http://avenue.mcmaster.ca>

**INSTRUCTOR INFORMATION:**

<b>COURSE ELEMENTS</b>
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Credit Value:	3	Leadership:	Yes	IT skills:	Yes	Global view:	Yes
Avenue:	Yes	Ethics:	Yes	Numeracy:	Yes	Written skills:	Yes
Participation:	Yes	Innovation:	Yes	Group work:	Yes	Oral skills:	Yes
Evidence-based:	Yes	Experiential:	Yes	Final Exam:	Yes	Guest speaker(s):	Yes

## COURSE DESCRIPTION

This course is designed to provide you with an understanding of issues relevant to the public accounting profession, and a brief introduction to audit testing and procedures. You will learn to think critically about issues facing the accounting profession, by analyzing cases, completing in class exercises and “real world” group projects. Upon completion of the course, you will be familiar with the public accounting environment (including professional standards, legal liability, ethics and regulation), the planning requirements of an audit engagement, how to perform various auditing procedures, and how to interpret various types of auditor’s reports. Topics to be covered in the course include: role of auditing and the regulators, auditing standards, auditor’s reports, ethics, legal liability, the audit risk model, fraud, internal controls, audit assertions, audit evidence, and substantive testing.

The course is designed to be hands-on during class time, with case discussions, group activities and discussion of textbook problems. Lecturing will be minimized, and thus, it is required that you read the assigned materials before coming to class.

## LEARNING OUTCOMES

Upon completion of this course, students will be able to complete the following key tasks:

- Evaluate potential client’s public accounting needs
- Play the role of an audit professional in several public accountant decision making settings
- Assess a client business environment and its potential impact on the assurance process;
- Determine and apply basic audit procedures necessary in specific audit client circumstances; and
- Detail an audit plan that is *specific* to the assurance assignment.

## COURSE MATERIALS AND READINGS

We will use the following reading materials, available from the McMaster bookstore or online, in this course.

### REQUIRED:

- 1) Arens, Elder, Beasley, Hogan & Jones, *Auditing: The Art and Science of Assurance Engagements*. 2019. Fourteenth Edition (“Arens”)
- 2) *CPA Canada Handbook*, (Assurance Sections) (“HB”) (available online via library)
- 3) *CPA Code of Professional Conduct (CPA Ontario website - <https://www.cpaontario.ca/stewardship-of-the-profession/governance/act-bylaws-and-regulations>)*
- 4) Articles and cases posted on Avenue: <http://avenue.mcmaster.ca>

## EVALUATION

Missed tests/exams will receive a grade of zero unless the student has submitted and been approved for a Notification of Absence or MSAF. Late assignments will receive a grade of zero.

Your final grade will be calculated as follows:

COMPONENT	COMMENT	PERCENT
Midterm Exam	Individual	30
Cumulative Final Exam	Individual	30
Case project	Group	10
Research project (written/oral)	Group	25
Participation	Individual	5
<b>Total</b>		<b>100%</b>

NOTE: The use of a McMaster standard calculator is allowed during examinations in this course. See McMaster calculator policy.

## COMMUNICATION AND FEEDBACK

Students who wish to correspond with instructors or TAs directly via email must send messages that originate from their official McMaster University email account. This protects the confidentiality and sensitivity of information as well as confirms the identity of the student. Emails regarding course issues should NOT be sent to the Area Administrative Assistants.

## CASE PROJECT

A team of 6 individuals (formed by instructor) will complete a case on an assurance engagement. The team is expected to use the techniques learned from the Case Workshop delivered in Fall 2018. Details of the case will be provided to you during week 4.

## RESEARCH WRITTEN AND ORAL PROJECT (DETAILS ATTACHED)

The same team of 6 individuals will take on the role of the audit engagement team for a publicly-traded Canadian company. The team is required to develop an audit strategy for the 'client company', using the company's most recent annual report and other publicly-available information. This will require a written report and a class presentation due during the last two weeks of class. The project will give you an opportunity to consider how the concepts and techniques discussed in the course would apply to the audit of an actual business. All team members must actively participate. The instructor must approve the client company and assign the presentation date.

A maximum of **15 TYPED PAGES (double spaced, 12 pitch Times New Roman, portrait orientation, excluding tables, figures, and bibliography)** is to be submitted with an appropriate bibliography.

A “professional” 15-minute class presentation of your findings and then 5-minute question and discussion period is allocated to each team. All members receive the same mark. Once teams are assigned they may not be changed. The presentation mark will comprise 50% of the total research project mark (i.e., 12.5% of your total grade).

## **PARTICIPATION**

Name cards and class pictures are used to help give credit for your participation. You must have a name card with your **full first and last name** clearly written and displayed in front of you for every class. You also are asked to submit a picture of yourself with identifying information (name, student number, email address) as well as your hometown and a “fun fact” to me by the third class. I use these cards to “get to know” my students.

Participation in discussion aids in assimilation of concepts and is an essential part of your professional development. Classes are more interesting and intellectually stimulating if there is participation from everyone. **In order for you to gain maximum benefit from discussions, it is essential that you complete text materials and readings in advance, as well as attempt assigned problems.** Therefore, class participation marks will be awarded on the basis of each student’s contribution to discussions, and relevant questions and comments during lectures.

Class participation is not equivalent to class attendance. Specifically, students who fail to participate in class discussions will receive a class participation mark of zero, regardless of regular class attendance. Students unable to attend class should inform the instructor before class of the conflict. Please refer to “Class participation evaluation” on Avenue.

## **EXAMINATIONS**

There will be a midterm and a comprehensive cumulative final examination during the examination period. There will be no makeup for the midterm examination. Absence from the scheduled midterm without prior approval of the instructor will result in a grade of zero. Approval for absence from an examination will only be granted for a valid reason (e.g. illness), and this portion of the grade will be re-weighted to the final examination. Absence from the final examination will be governed by the rules customarily followed by the School of Business. Examinations will be based on all assigned readings and cases, as well as class discussions and presentations.

**Note: Students are permitted to use only the McMaster standard calculator (CASIO FX-991) during examinations.**

## **ACADEMIC DISHONESTY**

You are expected to exhibit honesty and use ethical behaviour in all aspects of the learning process. Academic credentials you earn are rooted in principles of honesty and academic integrity.

Academic dishonesty is to knowingly act or fail to act in a way that results or could result in unearned academic credit or advantage. This behaviour can result in serious consequences, e.g. the grade of zero on an assignment, loss of credit with a notation on the transcript (notation reads: “Grade of F assigned for academic dishonesty”), and/or suspension or expulsion from the university.

It is your responsibility to understand what constitutes academic dishonesty. For information on the various types of academic dishonesty please refer to the *Academic Integrity Policy*, located at:

[www.mcmaster.ca/academicintegrity](http://www.mcmaster.ca/academicintegrity)

The following illustrates only three forms of academic dishonesty:

1. Plagiarism, e.g. the submission of work that is not one’s own or for which other credit has been obtained.
2. Improper collaboration in group work.
3. Copying or using unauthorized aids in tests and examinations

## **ONLINE COURSE COMPONENTS**

In this course we will be using email and Avenue to Learn. Students should be aware that when they access the electronic components of this course, private information such as first and last names, user names for the McMaster e-mail accounts, and program affiliation may become apparent to all other students in the same course. The available information is dependent on the technology used. Continuation in this course will be deemed consent to this disclosure.

If you have any questions or concerns about such disclosure, please discuss this with the course instructor.

## **REQUESTING RELIEF FOR MISSED ACADEMIC WORK**

Students may request relief from a regularly scheduled midterm, test, assignment or other course components. Please refer to the policy and procedure on the DeGroot website at the link below;

<http://ug.degroot.mcmaster.ca/forms-and-resources/missed-course-work-policy/>

## **STUDENT ACCESSIBILITY SERVICES**

Students who require academic accommodation must contact Student Accessibility Services (SAS) to make arrangements with a Program Coordinator. Academic accommodations must be arranged for each term of study. Student Accessibility Services can be contacted by phone 905-525-9140 ext. 28652 or e-mail [sas@mcmaster.ca](mailto:sas@mcmaster.ca).

For further information, consult McMaster University's Policy for Academic Accommodation of Students with Disabilities:

<http://www.mcmaster.ca/policy/Students-AcademicStudies/AcademicAccommodation-StudentsWithDisabilities.pdf>

## **ACADEMIC ACCOMMODATION FOR RELIGIOUS, INDIGENOUS OR SPIRITUAL OBSERVANCES (RISO)**

Students requiring academic accommodation based on religious, indigenous or spiritual observances should follow the procedures set out in the RISO policy. Students requiring a RISO accommodation should submit their request, including the dates/times needing to be accommodated and the courses which will be impacted, to their Faculty Office normally within 10 days of the beginning of term or to the Registrar's Office prior to their examinations. Students should also contact their instructors as soon as possible to make alternative arrangements for classes, assignments, and tests.

## **POTENTIAL MODIFICATIONS TO THE COURSE**

The instructor reserves the right to modify elements of the course during the term. There may be changes to the dates and deadlines for any or all courses in extreme circumstances. If either type of modification becomes necessary, reasonable notice and communication with the students will be given with explanation and the opportunity to comment on changes. It is the responsibility of the student to check their McMaster email and course websites weekly during the term and to note any changes.

The University reserves the right to change the dates and deadlines for any or all courses in extreme circumstances (e.g., severe weather, labour disruptions, etc.). Changes will be communicated through regular McMaster communication channels, such as McMaster Daily News, A2L and/or McMaster email.

## **ACKNOWLEDGEMENT OF COURSE POLICIES**

Your enrolment in Commerce 4AD3 will be considered to be an implicit acknowledgement of the course policies outlined above, or of any other that may be announced during lecture and/or on A2L. **It is your responsibility to read this course outline, to familiarize yourself with the course policies and to act accordingly.**

Lack of awareness of the course policies **cannot be invoked** at any point during this course for failure to meet them. It is your responsibility to ask for clarification on any policies that you do not understand.

<b>COURSE SCHEDULE</b>
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**Commerce 4AD3  
Introduction to Auditing  
Winter 2020 Course Schedule**

**Session 1 (Jan 8/9) – The Demand for Audit & The Public Accounting Profession and Audit Quality**

READ:

Arens - Ch 1 & 2

Problems: All Review Questions and 1-21, 1-23, 1-25, 2-20, 2-23

**Session 2 (Jan 15/16) – Professional Ethics and Legal Liability & Audit Responsibilities and Objectives**

READ:

Arens Ch 3 & 4

ICAO Rules of Professional Conduct

Problems: All Review Questions and 3-22, 3-23, 3-26, 3-29, 3-33

**Session 3 (Jan 22/23) – Audit Reports on Financial Statements & Other Services**

READ:

Arens Ch 4, 19 & 20

Problems: All Review Questions and 4-23, 4-27, 4-31, 4-32, 19-26, 19-27, 20-21, 20-22

**Session 4 (Jan 29/30) – Audit Evidence**

READ:

Arens Ch 5

Problems: All Review Questions and 5-27, 5-29, 5-34, 5-37

**Session 5 (Feb 5/6) – Client Acceptance, Planning, and Materiality**

READ:

Arens Ch 6

Problems: All Review Questions and 6-34, 6-35, 6-40, 6-41

**Session 6 (Feb 12/13) – Assessing the Risk of Material Misstatement**

READ:

Arens Ch 7

Problems: All Review Checkpoints and 7-26, 7-30, 7-34

**Session 7 (Feb 26/27) Internal Control and COSO Framework & Assessing Control Risk and Designing Tests of Controls**

READ:

Arens Ch 8 & 9

Problems: All Review Questions and 8-27, 8-28, 8-32, 9-26, 9-28, 9-32

**MIDTERM – Saturday Feb 29 OR March 7 (Tentative)**

**Session 8– (March 4/5) Develop Risk Response:**

**Audit Strategy and Audit Program & Audit Sampling Concepts**

**Audit Data Analytics Concepts (additional materials on Avenue)**

READ:

Arens Ch 10 & 11

Problems: All Review Questions and 10-24, 10-28, 10-31,

**Session 9 (March 11/12) – Audit Cycles Part 1**

READ:

Arens Ch 12 - 17

Problems: All Review Questions and 12-34, 12-38, 13-26, 13-29, 14-28, 14-31

**Session 10 (March 18/19) – Audit Cycles Part 2**

READ:

Arens Ch 12 - 17

Problems: All Review Questions and 15-23, 15-25, 16-24, 16-27, 17-21

**Session 11 (March 25/26) – Completing the Audit**

READ:

Arens Ch 18

Audit Planning Memorandum Due

Problems: All Review Questions and 18-23, 18-30, 18-33

**Session 12 (April 1/2) – Group Presentation and Exam Review**

**NOTES:** ALL PREPARE-FOR-CLASS-DISCUSSION QUESTIONS MAY NOT BE COVERED DUE TO TIME PRESSURES. HOWEVER, YOU ARE STILL RESPONSIBLE FOR ALL ASSIGNED MATERIALS

THERE MAY BE OTHER ASSIGNED MATERIALS HANDED OUT FROM TIME TO TIME. THESE ARE ALSO PART OF YOUR RESPONSIBILITIES

### **4AD3 RESEARCH PROJECT – Winter 2020**

The term project is a hands-on exercise in planning a financial statement audit. The project will give you an opportunity to consider how the concepts and techniques discussed in the course apply in auditing an actual business.

A team of individuals will take on the role of the audit engagement team for a publicly-traded Canadian company. The team is required to develop an audit strategy for the ‘client company’, using the company’s most recent annual report and other publicly-available information. Detailed instructions are below.

This will require a written report and a class presentation. All team members must actively participate.

#### **Project Instructions**

Assume that you are the engagement team conducting the financial statement audit of your assigned company. You are required to 1) prepare a planning memorandum and 2) submit a video of your presentation to the instructor. The project is worth 25% of the course grade, 50% for the presentation and 50% for the paper.

You can assume that the financial statements included in the annual report are not yet audited and you are responsible for planning the audit of these statements.

Use the information provided in the company’s Annual Report and other publicly documents relevant to your planning process. State any assumptions you find it necessary to make. You are not to contact the organization or interview people for this project. You also should not contact the actual auditors as they will need to keep all the client information confidential.

Please feel free to ask the instructor for further guidance if any of the requirements are not clear.

**Required:**

Assume the role of the entity's external auditor and prepare a planning memorandum with the following sections: (% marks available for each section noted in brackets)

1. Prepare a time budget for the project. Note which team member(s) are assigned to each section and estimate the amount of time each will spend to complete the work. Present as Exhibit 1. (2%)
2. Describe the business to demonstrate your understanding of the client company. This is a new company to the audit partner and the audit firm. Be sure to incorporate any client acceptance issues/considerations (such as going concern, independence issues, etc.) (15%)
3. Determine the audit risk level your team is willing to accept for this engagement. Justify your choices (15%)
4. Determine the materiality level you will use for planning purposes. Justify your choices. (15%)
5. Present the result of key analytical review procedures and impact on your audit approach. Summarize your findings in the report and provide details in an Exhibit. (20%)
6. Based on your research and assumptions above, state what you think will be the key audit issues to address in the engagement, and their impact on your audit approach. A minimum of two issues and a maximum of three issues should be discussed. (25%)
7. Summarize your preliminary overall audit strategy. (5%)
8. Prepare a time summary showing actual time spent by each team member on each section of the planning exercise. Add this information to Exhibit 1. (3%)

The maximum length of your paper should not exceed 15 pages, excluding exhibits, typed, double-spaced. Please hand in one copy of your company's Annual Report with your paper.

The presentation should be 15 minutes in length. Please provide the video and slides electronically to the instructor.