

**Commerce 4AD3
Introduction to Auditing
Winter 2021 Course Outline**

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

COURSE OBJECTIVES

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.

INSTRUCTORS AND CONTACT INFORMATION

INSTRUCTORS

Yvonne S. Kwok, CPA, CA

Email: kwokyv@mcmaster.ca

Virtual Office hours: By appointment

TEACHING ASSISTANTS

Main teaching assistant contact: Stephen Credico credicsm@mcmaster.ca

SECTIONS

Tuesdays 11:30 am to 2:20 pm (Class 3757- C01)

Wednesdays 2:30 am to 5:20 pm (Class 3854 - C02)

COURSE ELEMENTS

Credit Value:	3	Leadership:	Yes	Global View:	Yes	IT Skill:	Yes
Avenue:	Yes	Numeracy:	Yes	Written Skill:	Yes	Ethics:	Yes
Participation:	Yes	Innovation:	Yes	Group Work:	Yes	Oral Skill:	Yes
Evidence-Based:	Yes	Experiential:	No	Final Exam:	Yes	Guest Speaker:	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.
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REQUIRED 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>

CONDUCT OF CLASSES AND GENERAL APPROACH

LEARNING ACTIVITIES	DELIVERY	DESCRIPTION	TOOL(S)
Self-study	Asynchronous	Readings, modules, discussions	Textbook / Avenue to Learn / Tophat On your own time before lectures
Virtual lectures	Synchronous	Live sessions led by your instructor	Zoom / Tophat Weekly during scheduled class time

A combination of asynchronous and synchronous lectures, technical problem solving, case studies, and synchronous classroom discussions will be used. Lectures will be used to introduce, explain and otherwise clarify new topics and issues. This will be done using examples and/or problems and cases from the textbook. Lectures are in addition to the textbook. Not all problems and cases will be covered in class. It is of utmost importance that students bring their textbook to every synchronous lecture. Other problems will also be introduced in class from time to time. Solutions to short questions, multiple choice questions and problems will be provided, however, students are encouraged to discuss any other problems they have done with the instructor as well.

Top Hat Platform

We will be using the Top Hat (www.tophat.com) classroom response system in class for enhanced learning experience. You will be able to submit answers to in-class questions using Apple or Android smartphones and tablets, laptops, or through text message.

You can visit the Top Hat Overview (<https://success.tophat.com/s/article/Student-Top-Hat-Overview-and-Getting-Started-Guide>) within the Top Hat Success Center which outlines how you will register for a Top Hat account, as well as providing a brief overview to get you up and running on the system.

An email invitation will be sent to you by email, but if don't receive this email, you can register by simply visiting our course website:

Core 1	https://app.tophat.com/e/633078
Core 2	https://app.tophat.com/e/479595

Should you require assistance with Top Hat at any time, due to the fact that they require specific user information to troubleshoot these issues, please contact their Support Team directly by way of email (support@tophat.com), the in app support button, or by calling 1-888-663-5491.

Support

Should you require further assistance with Top Hat, their Support Team is there to help! You can contact them directly by way of email (support@tophat.com), the in app support button, the "Contact Support" button on this page, or call at 1-888-663-5491. Please do not contact your instructor for technical support.

Students are expected to be up to date with all topics covered up to and including the previous class.

The following points are of the utmost importance for success in this course:

- You must keep up to date with the topics in this course. Each topic builds on previous topics. If you fall behind and do not understand a previous topic, you will struggle with the other topics.
- Do as many of the exercises and problems at the end of each chapter in addition to the suggested practice questions under the Course Schedule section of this outline. Do this only once you have read the chapter thoroughly.
- Make use of the office hours to ask about anything you do not understand. Do not wait until right before the test or exam.
- Participate actively in each and every class.

Case Project

A team of 6 individuals (formed by instructor) will complete a case on an assurance engagement. 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).

EVALUATION

- **Class Participation:** You are strongly encouraged to turn on your webcam upon joining each synchronous class. Names are used to help give credit for your participation. You must display your **full name** in every synchronous lecture. 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 assigned text material and/or 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 and 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. Students are responsible for keeping a record of their own participation and for summarizing their contributions after each class.
- Further details will be provided by your instructor re. tracking participation by assigned section.
- Missed tests/exams will receive a grade of zero unless the student has submitted and been approved for a Notification of Absence or MSAF. Your final grade will be calculated as follows:

Components and Weights

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	20
Participation	Individual	10
Total		100%

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

<https://registrar.mcmaster.ca/exams-grades/exams/>

At the end of the course your overall percentage grade will be converted to your letter grade in accordance with the following conversion scheme.

LETTER GRADE	PERCENT	LETTER GRADE	PERCENT
A+	90 - 100	C+	67 - 69
A	85 - 89	C	63 - 66
A-	80 - 84	C-	60 - 62
B+	77 - 79	D+	57 - 59
B	73 - 76	D	53 - 56
B-	70 - 72	D-	50 - 52
		F	00 - 49

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. All students must receive feedback regarding their progress prior to the final date by which a student may cancel the course without failure by default.

For Level 1 and Level 2 courses, this feedback must equal a minimum of 20% of the final grade.

For Level 3 courses and above, this feedback must equal a minimum of 10% of the final grade.

Instructors may solicit feedback via an informal course review with students by Week #4 to allow time for modifications in curriculum delivery.

ACADEMIC INTEGRITY

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. **It is your responsibility to understand what constitutes academic dishonesty.**

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.

For information on the various types of academic dishonesty please refer to the [Academic Integrity Policy](https://secretariat.mcmaster.ca/university-policies-procedures-guidelines/), located at <https://secretariat.mcmaster.ca/university-policies-procedures-guidelines/>

The following illustrates only three forms of academic dishonesty:

- plagiarism, e.g. the submission of work that is not one’s own or for which other credit has been obtained.

- improper collaboration in group work.
- copying or using unauthorized aids in tests and examinations.

AUTHENTICITY/PLAGIARISM DETECTION

Some courses may use a web-based service (Turnitin.com) to reveal authenticity and ownership of student submitted work. For courses using such software, students will be expected to submit their work electronically either directly to Turnitin.com or via an online learning platform (e.g. A2L, etc.) using plagiarism detection (a service supported by Turnitin.com) so it can be checked for academic dishonesty.

Students who do not wish their work to be submitted through the plagiarism detection software must inform the Instructor before the assignment is due. No penalty will be assigned to a student who does not submit work to the plagiarism detection software.

All submitted work is subject to normal verification that standards of academic integrity have been upheld (e.g., on-line search, other software, etc.). For more details about McMaster's use of Turnitin.com please go to www.mcmaster.ca/academicintegrity.

REQUESTING RELIEF FOR MISSED ACADEMIC WORK

In the event of an absence for medical or other reasons, students should review and follow the Academic Regulation in the Undergraduate Calendar "Requests for Relief for Missed Academic Term Work" and the link below;

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

ACADEMIC ACCOMMODATION OF STUDENTS WITH DISABILITIES

Students with disabilities who require academic accommodation must contact [Student Accessibility Services \(SAS\)](#) at 905-525-9140 ext. 28652 or sas@mcmaster.ca to make arrangements with a Program Coordinator. For further information, consult McMaster University's [Academic Accommodation of Students with Disabilities](#) policy.

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 should submit their request to their Faculty Office **normally within 10 working days** of the beginning of term in which they anticipate a need for accommodation 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.

COPYRIGHT AND RECORDING

Students are advised that lectures, demonstrations, performances, and any other course material provided by an instructor include copyright protected works. The Copyright Act and copyright law protect every original literary, dramatic, musical and artistic work, **including lectures** by University instructors.

The recording of lectures, tutorials, or other methods of instruction may occur during a course. Recording may be done by either the instructor for the purpose of authorized distribution, or by a student for the purpose of personal study. Students should be aware that their voice and/or image may be recorded by others during the class. Please speak with the instructor if this is a concern for you.

EXTREME CIRCUMSTANCES

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.

POTENTIAL MODIFICATION 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.

COURSES WITH AN ON-LINE ELEMENT

Some courses *may* use on-line elements (e.g. e-mail, Avenue to Learn (A2L), LearnLink, web pages, capa, Moodle, ThinkingCap, etc.). Students should be aware that, when they access the electronic components of a course using these elements, 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 a course that uses on-line elements will be deemed consent to this disclosure. If you have any questions or concerns about such disclosure please discuss this with the course instructor.

ONLINE PROCTORING

Some courses may use online proctoring software for tests and exams. This software may require students to turn on their video camera, present identification, monitor and record their computer activities, and/or lock/restrict their browser or other applications/software during tests or exams. This software may be required to be installed before the test/exam begins.

CONDUCT EXPECTATIONS

As a McMaster student, you have the right to experience, and the responsibility to demonstrate, respectful and dignified interactions within all of our living, learning and working communities. These expectations are described in the [Code of Student Rights & Responsibilities](#) (the “Code”). All students share the responsibility of maintaining a positive environment for the academic and personal growth of all McMaster community members, **whether in person or online**.

It is essential that students be mindful of their interactions online, as the Code remains in effect in virtual learning environments. The Code applies to any interactions that adversely affect, disrupt, or interfere with reasonable participation in University activities. Student disruptions or behaviours that interfere with university functions on online platforms (e.g. use of Avenue 2 Learn, WebEx or Zoom for delivery), will be taken very seriously and will be investigated. Outcomes may include restriction or removal of the involved students’ access to these platforms.

ACKNOWLEDGEMENT OF COURSE POLICIES

Your enrolment in Commerce 3AB3 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.

**Course Schedule
Commerce 4AD3
Introduction to Auditing
Winter 2021 Course Schedule**

Session 1 (Jan 12/13) – 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 19/20) – 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 26/27) – 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 (Feb 2/3) – Audit Evidence

READ:

Arens Ch 5

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

Session 5 (Feb 9/10) – Client Acceptance, Planning, and Materiality

READ:

Arens Ch 6

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

Midterm recess (Week of Feb 15)

MIDTERM – Saturday, February 27 at 6:00 pm to 8:00 pm

Session 6 (Mar 2/3) – Assessing the Risk of Material Misstatement

READ:

Arens Ch 7

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

Session 7 (Mar 9/10) 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

Session 8– (Mar 16/17) 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 (Mar 23/24) – 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 (Mar 30/31) – 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 (Apr 6/7) – Completing the Audit & Group Presentation

READ:

Arens Ch 18

Audit Planning Memorandum Due

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

Session 12 (April 13/14) – 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 2021**

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 oral presentation should be 15 minutes in length. Please provide slides electronically to the instructor before your presentation.

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