



# Rotman Commerce UNIVERSITY OF TORONTO

## Course Outline

### RSM 423 H1 F

Auditing II (Advanced Auditing)

Fall 2015

Course Meets: Tuesdays 4-6 pm, WO 35 (section L0101); Thursdays 5-7 pm, RT 142 (section L5101)

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**(Note: the above is my preferred email address. Try not to post emails through Blackboard (henceforth Bb) as I check those irregularly)**

### Course Scope and Mission

This course covers the more advanced assurance section of the CPA Canada Handbook (henceforth, HB) and related underlying concepts. In addition to covering the technical material in the HB, we will be reviewing some research and controversies of current practice. We consider a range of issues that are important in audit practice. Audit II builds on your introductory course by providing a more thorough coverage of the audit reasoning process, professional judgment, and the relationship between auditing and accounting.

### Course Prerequisites

RSM 323

## Course Website

### Logging in to your Blackboard Course Website

Like many other courses, RSM 423 uses Blackboard (Bb) for its course website. To access the RSM 423 website, or any other Blackboard-based course website, go to the UofT portal login page at <http://portal.utoronto.ca> and log in using your UTORid and password. Once you have logged in to the portal using your UTORid and password, look for the **My Courses** module, where you'll find the link to the RSM 423 course website along with the link to all your other Blackboard-based courses.

### Activating your UTORid and Password

If you need information on how to activate your UTORid and set your password for the first time, please go to [www.utorid.utoronto.ca](http://www.utorid.utoronto.ca). Under the "First Time Users" area, click on "activate your UTORid" (if you are new to the university) or "create your UTORid" (if you are a returning student), then follow the instructions. New students who use the link to "activate your UTORid" will find reference to a "Secret Activation Key". This was originally issued to you when you picked up your Tcard at the library. If you have lost your Secret Activation Key you can call 416-978-HELP or visit the Help Desk at the Information Commons on the ground floor of Robarts Library to be issued a new one. **The course instructor will not be able to help you with this.** 416-978-HELP and the Help Desk at the Information Commons can also answer any other questions you may have about your UTORid and password.

### Email

At times, the course instructor may decide to communicate important course information by email. As such, all UofT students are required to have a valid UTmail+ email address. You are responsible for ensuring that your UTmail+ email address is set up AND properly entered on the ROSI system. For more information please visit <http://help.ic.utoronto.ca/category/3/utmail.html>

Forwarding your utoronto.ca email to a Hotmail, Gmail, Yahoo or other type of email account is not advisable. In some cases, messages from utoronto.ca addresses sent to Hotmail, Gmail or Yahoo accounts are filtered as junk mail, which means that important messages from your course instructor may end up in your spam or junk mail folder.

### Course Material

The course material has been classified into two types:

#### Required and Optional Materials

**Required** materials are necessary to pass the course. This document lists only the required readings that you must know for exams. The required material consists primarily of lecture notes, course slides, and SB chapter material that will be published in 2013, as well as selected material from the current SB.

**Optional** readings are supplementary; they provide supporting details on the required material, class coverage and the required readings. The optional readings are listed in a separate readings list (Part II of this course outline) posted on Bb in the course outline folder. The optional material consists of types: background knowledge and miscellaneous. The background knowledge helps you to better understand the required material. The miscellaneous material provides even more specialized knowledge or material for personal use such as how to prepare for job interviews. The optional readings are not necessary to do well on the tests; however, if you have difficulty following the required then the background knowledge readings can help you get a better understanding. Most of the background knowledge readings are summarized in the required course material. If you are interested in following up a reference in the lecture notes, then check for it in the optional readings folder. Some optional material is purely of special interest and some for your personal benefit (marked as PB).

**All materials should be available on Bb or by clicking on the links in the course outline below (in its electronic form on Bb under course documents), except as noted by \*\*\*.**

**Important Notice!** The exams will cover the course material in the following priority:

1. Class coverage of material (make sure you take good notes!).
2. Class lecture notes and complementary power point slides posted on Bb are intended to supply most of the class coverage. These include summaries of required and background readings, illustrations, and solutions to questions/cases covered in class. The lecture notes do not cover discussions in class that may deviate from the posted material. This is why you are required to take good notes.
3. Other required readings.
4. Background (optional) readings: if you don't understand the points made in the class lectures after reading the required material then you might find the background readings useful. The optional background readings illustrate the issues in real world contexts or cover relevant research relating to the course material. Much of this material is summarized in the class lecture notes. You might also find that the optional material is useful for doing the bonus mark projects. Links to the background readings can be found in Part II of the course outline posted in Bb along with Part I.

### **Required Readings**

- 1.\*\*\* Selected chapters from [Auditing, An International Approach](#), McGraw Hill Ryerson, 2013 (6<sup>th</sup> Ed), henceforth SB (or earlier editions, by W. Smieliauskas and K. Bewley)-- or other appropriate text as discussed in class. Don't buy any new textbooks until you have attended the first class!
2. Readings and cases as indicated in class materials of this outline. See below. The readings will be available on Bb as explained below. These readings consist primarily of lecture notes, slides, and selected SB chapters.
3. The CPA Canada Handbook, including the Canadian Audit Standards (CASs), is accessible online at [www.rotman.utoronto.ca/bic/](http://www.rotman.utoronto.ca/bic/) and selecting the "[CPA Canada Standards and Guidance](#)" data base. If you have difficulties with the links, you can contact BIC at [bicstaff@rotman.utoronto.ca](mailto:bicstaff@rotman.utoronto.ca) You should learn to navigate through the CPA Canada Handbook on your own!

## Evaluation and Grades

Grades are a measure of the performance of a student in individual courses. Each student shall be judged on the basis of how well he or she has command of the course materials.

Total allocation of marks is as follows:

Assignments	25%
Midterm (1 hour) – Fri Oct 16 <sup>th</sup>	25%
Final exam (2 hrs.)	<u>50%</u>
Final mark	<u>100%</u>

There are two assignments both to be done in groups of one to four students. Both assignments are cases that will be made available on the Blackboard (Bb) site. Further information will be given in class.

+ up to 3 bonus marks for participation in optional 10-15 minute presentations on selected topics to be given by student groups in class. An alternative bonus mark project is to prepare a critical thinking analysis of the IASB (2015) Exposure Draft on the conceptual framework for financial reporting. The May 2015 Exposure Draft on the Conceptual Framework can be found at the following link:

<http://www.ifrs.org/Alerts/ProjectUpdate/Pages/IASB-publishes-a-Discussion-Paper-on-the-Conceptual-Framework.aspx>

The written report on your analysis of the discussion paper is due in last class—class 12. Details to be discussed in class. Note that the max bonus marks possible for any student is 3.

## Course Objectives

1. To develop critical thinking skills for professional judgment in assurance engagements, particularly the audit of accounting estimates and appropriate application of accounting standards under uncertainty.
2. To develop a better understanding of the basic concepts and reasoning underlying accounting and auditing principles, and their integration
3. To become better acquainted with current issues, research and controversies facing the auditing profession.
4. To obtain advanced technical knowledge of the CPA Canada Handbook—Assurance, and its application
5. To obtain an understanding of basic statistical concepts useful to auditors and how this can be extended to help guide broader professional judgment.

The CPA has free e-learning courses available that may help you review the technical material addressed in RSM 323 and in this course. Select (A1-CAS-EN) Introduction to New Auditing Standards in Canada. The link for the e-learning portal is

[http://38.113.180.226/cica\\_init/](http://38.113.180.226/cica_init/)

## Weekly Schedule

### Class 1-2: Statistical Auditing: The Foundation of the Audit Risk Concept

#### Required Readings:

- CAS, 500, 530, and AuG-41 (an old CICA Handbook guideline that best illustrates how audit standards deal with uncertainty)
- Lecture notes class 1-2
- Review problem DC 10-4 page 425 SB (same as first class handout).
- Hall, T.W., T.L. Herron, and B.J. Pierce. "[How Reliable is Haphazard Sampling](#)". *CPA Journal*. Jan. 2006: 26-27.
- Giant Store's Case—the power of statistical reasoning to guide audit judgment—posted in Bb.
- The dozy watchdogs; Accounting Scandals:  
<http://search.proquest.com.myaccess.library.utoronto.ca/docview/1636202791/fulltext/10CAA509EADB45FDPQ/16?accountid=14771>
- Grey et al. 2011 reading: misconceptions by auditors and users of financial statements on the purpose of audits

### Class 3: Professional Judgment and Skepticism, Reliance on Experts, the What is Implied by an Acceptable Reporting Framework? Audit Reasoning Process, and related Basic Reasoning Concepts:

#### Required Readings:

- Lecture notes class 3
- CAS 200, 210, 610, 620, 800, Sections 5049 and 5050; AuG 46
- SB Appendix 3A
- Skim CAS 230, focus especially on A10. See chapter 15 Question DC 15-8 page 653 SB (15.43) for a good illustration of how language and choice of words can affect auditor judgment in practice.
- Verreault, D. A., S. Yang, J. Angel. 2004. "[Sprint Corporation: Ethical Decisions and Tax Avoidance Strategies](#)". *Issues in Accounting Education*. Vol.19 No. 1 (February): 119-143.
- P. Cowperthwaite. **Tougher than you think**. *CAMagazine*. March 2013: 43-45.
- P. Cowperthwaite. **Good Judgments**. *CAMagazine*. April 2013: 45-47.
- S. Salterio. **Shedding light on negotiations**. *CAMagazine*. April 2013: 54-57.

### Class 4: Review of Intro Auditing, the Canadian Auditing Standards (CASs) specialized audit topics, introduction to review and compilation engagements, assurance and association frameworks.

#### Required Readings:

- CPA Canada Handbook Sections 5020, 5021, 5025, 530, 5800, 7600, 8100, 8500, 8600, 9100, 9200, CSAE 3416, 3410, CAS 330, 402, 450, 500, 501, 505, 510, 520, 710, 805, 810, Section 7500, 7050,
- Lecture notes for class 4
- Ch. 16 SB, pp. 626-640 and 651-657 (or equivalent).
- Special Reports: service organizations: pages 38-39 of chapter 16 old edition posted in Bb for this class.

- Ch. 7-8 SB (review of intro auditing).
- Review problems SB Chapter 6, Question DC 6-1, page 237, Chapter 17, EP 17-2 pages 704-705 SB and 16.56, 16.57, 16.58 of old edition appendix 16 posted in Bb for this class.
- Hermanson, D.R. "[How Consulting Services Could Kill Private-Sector Auditing.](#)" *CPA Journal*. Jan. 2009: 6-9.

**Class 5: The New Audit Report, Risk-Based Auditing, and Going Concern, and Materiality--the Basic Concepts**

**\*\*\*Mid-term Exam—1 hour test (25 marks) on Friday Oct. 16, 8-9 am - location TBA  
The mid-term test covers the 1<sup>st</sup> 5 weeks of course material.**

**Required Readings:**

- Skim through CAS 230, 300,315,320,330, 450, 550, 560, 600, 700, 705, 706.
- Lecture notes for class 5, especially the class problems related to new CASs.
- Also, you can check pages 40-41 (Exhibit 2-2) SB for CAS 700 report.
- Sheehan, N.T. "[Smith & Jones LLP](#)" *Accounting Perspectives*. Vol. 8 No. 2: 165-177. (Smith and Jones LLP Case).
- Review Chapter 6 SB in Bb.

**Class 6: Introduction to Risk Based Reasoning in FR (EBAT) Principles**

**\*\*\*Assignment 1 due in class 6: Case 1 assignment from Assignments folder in Bb**

**Required Reading:**

- Batten et al. 2013: reading on problems auditors are having in verifying accounting estimates and fair values
- Makridakis, S., R.M. Hogarth, and A. Gaga. "Why Forecasts Fail. What to Do Instead." MIT Sloan Management Review. Winter 2010. Vo. 51, No. 2: 83-90.
- "opinion shopping" standard on pages 121-122 SB.
- Chapter 19 SB , Part I

**Class 7-8: Assessing the Estimation Uncertainties in Accounting Estimates: Audit Risk vs. Accounting Risk vs. Info Risk vs. Business Risk**

**Required Readings:**

- CAS 540, and 570.
- AuG-41 (again!)
- Cockburn, D. (1992). "[At home on the range](#)" *CA Magazine*. CICA. May: 38-39.
- Lecture Notes class 7-8.
- Chapter 19 SB, Part II (online in Connect) and appendix 19A (online in Connect).
- HB Accounting/Part I-IFRS/2014 edition/The conceptual framework for financial reporting, including measurement uncertainties, IAS 18 (revenues), IAS 37 (contingencies), and IAS (leases).

**Bonus presentation project in class 8: summarizing the recent Toshiba accounting scandals. Project 2 consists of appraising the class caused for Canadian companies arising from recent volatility in oil prices.**

**Classes 9-10: Responsibilities for Detecting Fraud, Illegal Acts, Misleading Reporting, and guidance on how to help decide if misstatements are intentional, Corporate Governance**

**Required Readings:**

- CAS 240 and CAS 250, 260, 265, Sections 5815, 5925 and 9110; CSAE 3416, 3410.
- Guidance on Criteria of Control (CPA Canada).
- Investigative and Forensic Accounting (CPA Canada).
- Lecture notes class 9-10.
- Chapters 7, 21, and appendix 21A of SB, with focus on application case in Chapter 21.
- Krugman, P. (Nobel Prize in economics 2008). "[Real Bonuses Based on Fake Profits: The Madoff Economy](#)" also in pages 551-552 of SB.
- Benson, S. "[Recognizing the Red Flags of a Ponzi Scheme.](#)" *CPA Journal*. June 2009: 18-25.
- Dorminey, J., S. Fleming, M. Kronacher, and R.A. Riley Jr. 2012. "The Evolution of Fraud Theory" *Issues in Accounting Education*, Vo. 27 No. 2: 555-579.

**Class 11: Public Sector Auditing, Assurance on Solvency, Prospectuses, and FOFI. AuG-13**

**Required Readings:**

- Lecture notes class 11
- HB Sections 7150, 7200, 4250 (accounting section of HB), AuG-6, Aug-16.
- Chapter 6 SB and appendix 6E
- Chapters 17 and 21 SB
- CAS 720, AuG-4, PS 5000, 5300, 5400, 6410, 6420, CSAE 3001
- MD&A Guidance CPA Canada

**Class 12: Assignment 2 due in last class; Review of HB 5925: Audit of Internal Control; and review of the course.**

**Bonus project3: class presentation on the results of using the Rotman Finance Lab to estimate the accounting risks associated Canada's oil companies in light of recent volatility in oil prices.**

**Written report bonus projects due in class 12: A max of 3 bonus marks for the entire course is available for any student.** If you do not get a chance to do a bonus presentation, the alternative bonus mark project is to prepare a report involving a critical analysis from the audit perspective of the IASB's May 28, 2015 Exposure Draft on the Conceptual Framework of Financial Reporting. The Exposure Draft can be found at the following link:

[http://www.ifrs.org/Current-Projects/IASB-Projects/Conceptual-Framework/Documents/May%202015/ED\\_CF\\_MAY%202015.pdf](http://www.ifrs.org/Current-Projects/IASB-Projects/Conceptual-Framework/Documents/May%202015/ED_CF_MAY%202015.pdf)

You might also find the basis of conclusions useful in your critical analysis at the following link:

[http://www.ifrs.org/Current-Projects/IASB-Projects/Conceptual-Framework/Documents/May%202015/Basis-to-ED\\_CF\\_MAY%202015.pdf](http://www.ifrs.org/Current-Projects/IASB-Projects/Conceptual-Framework/Documents/May%202015/Basis-to-ED_CF_MAY%202015.pdf)

**Due in last class (class 12):** Good readings for this bonus project can be found in Part II of this course outline (optional readings class 12)

**Required Readings: same as class 11**

## **POLICY AND PROCEDURE**

### **Missed Tests and Assignments (including midterm examinations)**

Students who miss a test or assignment for reasons entirely beyond their control (e.g. illness) may submit a request for special consideration. Provided that notification and documentation are provided in a timely manner, and that the request is subsequently approved, no academic penalty will be applied.

In such cases, students must notify Rotman Commerce on the date of the missed test (or due date in the case of course work) and submit supporting documentation (e.g. [Verification of Student Illness or Injury form](#)) to the Rotman Commerce Program Office within **48 hours** of the originally scheduled test or due date. Students who do not provide Rotman Commerce or the instructor with appropriate or sufficient supporting documentation will be given a grade of 0 (zero) for the missed test or course deliverable.

**Note that the physician's report must establish that the patient was examined and diagnosed at the time of illness, not after the fact. Rotman Commerce will not accept a statement that merely confirms a report of illness made by the student and documented by the physician.**

**Submission of Assignments** - Late assignments will also be given a mark of zero. A missed midterm will be made up in consultation with the instructor.

### **Accessibility Needs**

The University of Toronto is committed to accessibility. If you require accommodations for a disability, or have any accessibility concerns about the course, the classroom or course materials, please contact Accessibility Services as soon as possible: [accessibility.services@utoronto.ca](mailto:accessibility.services@utoronto.ca) or <http://www.accessibility.utoronto.ca/>.

### **Academic Integrity**

Academic Integrity is a fundamental value essential to the pursuit of learning and scholarships at the University of Toronto. Participating honestly, respectfully, responsibly, and fairly in this academic community ensures that the UofT degree that you earn will continue to be valued and respected as a true signifier of a student's individual work and academic achievement. As a result, the University treats cases of academic misconduct very seriously.

*The University of Toronto's Code of Behaviour on Academic Matters*

<http://www.governingcouncil.utoronto.ca/policies/behaveac.htm> outlines the behaviours that constitute academic misconduct, the process for addressing academic offences, and the penalties that may be imposed. You are expected to be familiar with the contents of this document. Potential offences include, but are not limited to:



In papers and assignments:

- Using someone else's ideas or words without appropriate acknowledgement.
- Submitting your own work in more than one course without the permission of the instructor.
- Making up sources or facts.
- Obtaining or providing unauthorized assistance on any assignment (this includes collaborating with others on assignments that are supposed to be completed individually).

On test and exams:

- Using or possessing any unauthorized aid, including a cell phone.
- Looking at someone else's answers
- Misrepresenting your identity.
- Submitting an altered test for re-grading.

Misrepresentation:

- Falsifying institutional documents or grades.
- Falsifying or altering any documentation required by the University, including (but not limited to), medical notes.

All suspected cases of academic dishonesty will be investigated by the following procedures outlined in the *Code of Behaviour on Academic Matters*. If you have any question about what is or not is permitted in the course, please do not hesitate to contact the course instructor. If you have any questions about appropriate research and citation methods, you are expected to seek out additional information from the instructor or other UofT resources such as College Writing Centres or the Academic Success Centre.