

**ACCOUNTING 590
ADVANCED AUDITING SEMINAR
Spring 2004**

Professor: Marcia Niles niles@uidaho.edu
Office: 125A J. A. Albertson Building Phone: 885-7238
Office Hours: TR 10:50-11:30, W 1-3, and by appointment

Required Materials:

Guy, Sampling, Fifth Edition (GUY)
Toffler, Barbara, Final Accounting (FA)
Readings packet, available at the bookstore (later). (RP)

Access to:

AICPA Professional Standards, Volumes A and B
A standard auditing text such as Messier.
Wall Street Journal

Course Objectives and Structure:

This course addresses a variety of professional issues focusing on but not limited to auditing. It is designed to be a seminar, so it's important to prepare assigned readings and/or cases before class. Each person's opinions are important, but they need to be informed opinions. At completion of the course you will have both a broader and a deeper understanding of the public accounting profession today. We will explore current fundamental and dynamic changes in the auditing environment, refine your auditing skills and read a selection of basic auditing literature.

I encourage you to bring issues or concerns you have regarding the profession to class at any time.

Grading:

Tentative evaluation weighting is as follows:

| | |
|---------------------|--------------------|
| Written assignments | 55 percent |
| Final project/exam | 30 percent |
| Class participation | <u>15 percent</u> |
| | <u>100 percent</u> |

Assignments and readings listed below are subject to improvement; it is your responsibility to verify due dates and changes in assignments. After we complete the first three units, we have some flexibility to pursue interests the class has developed.

Unit I: Introductions to Current Auditing Issues

Day 1: Introduction and Review of audit logic process

Every other Thursday we will spend the first 15 -30 minutes for a “show and tell” on current events. I expect you to find articles on the state of the profession from a variety of sources. There are several sources online. The accounting library subscribes to the Wall Street Journal. There is an Accounting Web for news. AiRPa.org has updates on standards. Start a file for your articles, and feel free to make copies for others.

Find a Copy of Sarbanes-Oxley(SOX) and print it out.
news.findlaw.com/hdocs/docs/gwbush/sarbanesoxley072302 is the website I found. Begin reading.

Day 2: Implications of Sarbanes-Oxley. Go to the PCAOB website and read the current news.

Day 3: Sarbanes-Oxley
Find an article addressing the implications of SOX

Day 4: Auditor-Client Negotiation Game

Day 5: “You’re in Charge”

Day 6: “Auditors” Responsibility for Fraud Detection” *Journal of Accountancy*
www.aicpa.org/pubs/jofa.jan2003/index.htm
Read SAS 99

Day 7: “A Market Solution to the Accounting Crisis” Joshua Ronen (attached)
Begin reading Final Accounting, be ready to discuss Ch 1- 3.

Day 8: FA

Day 9: FA Ch 6 - 10

Assignment: Write an analysis on your observations of the state of the auditing profession based on the above writings as well as any other materials you have collected. Include as prediction of where you think the profession is headed over the next five years.

Unit II: Independence

“Personal Integrity and Accountability” RP

“Auditor Independence: A Burdensome Constraint or Core Value?” RP

“SEC Auditor Independence Requirements” RP

“To Tell or Not To Tell” RP

FA review

Assignment: Complete write-up of “To Tell or Not To Tell”

III. Audit Techniques

“You’re In Charge” RP

“The Dog Ate My Workpapers” RP

“The High Cost of Low Prices at Pharmor” RP

“Onaspre Video—Just Another rerun Opinion?” RP

“Dickinson Technologies, Inc: Assessing Control Environment and Fraud”

“Grey Paints” RP

“Qualitative Analytical Procedures and Management Fraud: The Case of the Regina Company”

“I’ve Got Your Number” RP

“Using Digital Analysis of Enhance Data Integrity” RP

“Instructional Case: Detecting Earnings Manipulation” RP

Assignments: “Tallahassee Bean Counters” RP

Final Case: “Trademark, Inc” RP

Unit IV: Sampling – Statistical Sampling, Guy, Carmichael and Whittington

Day 4 Chapters 1 and 2 Case 1-1, Case 2-2

Day 5 Chapter 7 Case 7 – 1, Case 7 - 3

Day 6 Chapter 3 Case 3 –1, Case 3 –5, Case 3 –8

Day 7, 8 Chapter 6 Case 6 – 2, Case 6-4

“Probability Proportional to Size Sampling” RP
Problems to be handed out

“The Use of and Selection Biases Associated with Non-Statistical Sampling in Auditing”

“Sample Error Characteristics and Projection of Error to Audit Populations”

Assignment: All corrected (by you) statistical sampling homework will be handed in together at the end of this unit

A Market Solution to the Accounting Crisis

By JOSHUA RONEN

March 8, 2002

Since the collapse of Enron, there has been no shortage of proposals for reform of the accounting profession, the latest coming yesterday from President Bush. Unfortunately, most of these suggestions are neither constructive nor realistic.

One simple idea, however, based on market principles and easily implemented, could go a long way toward restoring the credibility of the profession - and toward providing investors with reliable information. Instead of appointing and paying auditors, corporations should be able to buy financial-statement insurance. This would protect investors against losses suffered as result of misrepresentations in financial statements.

The amount of insurance coverage that corporations obtain, and the premiums they pay, should be disclosed. Those corporations with higher coverage and lower premiums would distinguish themselves in the eyes of investors. Every company would be eager to get such coverage. Insurance carriers would be happy to have the new business. But they would need to properly gauge the risk they face, and that's where the auditors would come in. The insurance carriers would appoint - and pay - the auditors to assess the financial statements of their prospective clients. An auditor's opinion, publicized along with the financial statements, would help the carrier decide on the coverage and premium.

Consider the benefits. By knowing how much (or how little) insurance coverage comes with the securities they buy, investors would be able to tell which stocks are more reliable and which corporations are more trustworthy. This would also solve the problem of auditors having conflicts of interest, since they would not be hired by the companies they audit. This new system needn't be more expensive. While the insurance carriers would have to pay the auditors, they would be reimbursed by the corporations they insure. The total cost to the corporations - insurance premium plus the reimbursement of the audit fee - would not be much different from what they currently pay in audit fees and premiums for directors' and officers' liability insurance.

In the aftermath of Enron, the big accounting firms, fearful of governmental regulation and anxious to redeem the reputation of their profession, said they would consider shedding their consulting practices. But even without consulting, they would still rely on fees from the companies whose financial statements they must verify. Simply asking the government to act as the auditor is unrealistic. And President Bush's proposals, which include setting up an independent regulatory board for the accounting profession, are inadequate. Financial-statement insurance is the most practical and efficient solution, for it would use the incentives of the market. Even better, it would redirect the auditor's loyalty to where it belongs: a corporation's employees, creditors and shareholders.

Joshua Ronen is a professor of accounting at New York University's Stern School of Business.