



# **Division of Economics and Financial Studies**

## **ACCG 340**

Auditing and Assurance Services

2008 Semester 2

**MACQUARIE UNIVERSITY  
DIVISION OF ECONOMICS AND FINANCIAL STUDIES  
UNIT OUTLINE ACCG 340**

<b>Year and Semester:</b>	2008 Semester 2
<b>Unit Convenor:</b>	Alicia Jiang
<b>Prerequisites:</b>	<b>39 Credit Points and (ACCG 310 (P) or GPA 2.5) and (ACCG250 (P) or ACCG251 (P))</b>

Students in this unit should read this unit outline carefully at the start of semester. It contains important information about the unit. If anything in it is unclear, please consult one of the teaching staff in the unit.

### **ABOUT THIS UNIT**

#### **UNIT DESCRIPTION (3 undergraduate credit points)**

This unit is primarily concerned with the external audit of corporate financial statements. The lectures presented are structured to correspond with audit methodology used in practice and integrate Australian and International Auditing Standards.

The majority of the lectures deal with the various activities undertaken by auditors. The main stages of the audit process are addressed including planning, gathering and evaluating audit evidence (including performance of tests of controls and substantive audit procedures) and the formation of the audit opinion. Topics such as analytical procedures and computer assisted audit techniques are not treated as separate topics, but are integrated throughout the unit. Other topics, including auditors' legal responsibilities, ethics and assurance services, are dealt with as special topics.

The lectures mainly deal with the concepts underlying the methodology, while the tutorial material is designed to demonstrate how the methodology is applied in practical situations.

#### **TEACHING STAFF**

**Convenor: Alicia Jiang**

Room: E4A240

Phone: 9850 4850

Email: [ljiang@efs.mq.edu.au](mailto:ljiang@efs.mq.edu.au)

**Brett Considine**

Room: E4A 345

Phone: 9850 8522

Email: [brett.considine@mq.edu.au](mailto:brett.considine@mq.edu.au)

**James Hazelton**

Room: E4A 239

Phone: 9850 8486

Email: [james.hazelton@mq.edu.au](mailto:james.hazelton@mq.edu.au)

**Chris Searchfield**

Room: E4A 238

Phone: 9850 8462

Email: [chris.searchfield@mq.edu.au](mailto:chris.searchfield@mq.edu.au)

**Unit Administrator: Sterling Huang**

Room: E4A 650

Phone: 9850 4853

Email: [shuang@efs.mq.edu.au](mailto:shuang@efs.mq.edu.au)

Consultation hours will be detailed on the unit webpage. **Please note that staff will only respond to emails that are sent by students from their Macquarie University email address.** Please remember that there are hundreds of students in the unit so check your question has not been answered elsewhere (e.g. in the textbook or unit webpage) and use e-mail only as a last resort.

**CLASSES**

The timetable for classes can be found on the University web site at:

<http://www.timetables.mq.edu.au/>

**LEARNING OUTCOMES**

This unit seeks to develop both generic skills and specific knowledge. A student passing this course must master specific knowledge of the audit process. In order to conduct effective audits a student will also develop their ability for critical analysis, problem solving, creative thinking and ethical reasoning. The ability to plan and implement the gathering of evidence, and the critical analysis of evidence, are valuable skills that extend beyond the specific area of auditing financial statements.

## TEACHING AND LEARNING STRATEGY

### LECTURES:

Attendance at lectures is highly recommended. There will be practical explanations and examples given in lectures which supplement the text material and tutorial questions. If you choose not to attend lectures, it would be wise to be aware of any announcements made in lectures that could affect your study. Lecture slides will be available on the **unit webpage** a few days prior to the lecture. It is students' responsibility to download and print these slides.

### TUTORIALS:

The objective of tutorial assignments is to apply audit theory to practical situations. Tutors will discuss the issues and difficulties students had in answering the questions.

**Tutorial assignments must be submitted at the end of each tutorial on a weekly basis.**

Solutions will be made available in the week following each tutorial on the unit webpage. It is required that students attempt all tutorial questions in writing. Students will receive a 1/2 mark for each complete tutorial to a maximum of 5 marks. A complete tutorial:

- Attempts all tutorial questions **including questions from readings and lecture multiple choice questions** (available from the unit webpage)
- Is submitted in the students' registered tutorial (not before, not after, not to the same tutor's class at a different time etc. etc.)

Tutors will not award marks for assignments that do not meet the above criteria under any circumstances. **Copying suggested solutions from prior semester tutorial questions constitutes plagiarism and will result in a zero mark for the specific tutorial assignment. Repeat offenders will receive zero marks for their overall tutorial assessment.**

If you are unable to attend your tutorial due to illness or other reasons you will NOT receive any tutorial marks for that week (but remember it's only worth a 1/2 mark). If you are unable to attend a number of tutorials due to a persistent illness or some other reason, you must formally apply for special consideration in respect of your within-semester assessment.

**Students may only attend their registered tutorial.** Tutorial performance will be taken into account when considering any appeals for special consideration.

**Changes to tutorial classes can only be done ONLINE.** Please do not email academic staff to request changes.

## REQUIRED AND RECOMMENDED TEXTS:

All students should purchase from the Co-op Bookshop the following:

Gay, G. and Simnett, R., *Auditing and Assurance Services in Australia*, Revised Third edition, McGraw-Hill Irwin, North Ryde, Australia, 2007.

**Note that previous editions of this text are NOT acceptable as there have been substantial revisions to the Auditing Standards.**

This text will be supplemented with readings available on e-reserve.

Students will also be expected to read the relevant Auditing Standards, available online at <http://www.auasb.gov.au/> or published as the *Auditing Handbook 2008*, being Volume 2 of the Accounting and Auditing Handbook 2008 by both Wiley and Pearson/Prentice Hall.

The following texts are useful as additional references:

Arens, A., P. Best, G. Shailer, B. Fielder, R. Elder & M. Beasley, *Auditing and Assurance Services in Australia*, Seventh Edition, Pearson, Sydney, 2007

Leung P., P. Coram, B. Cooper, *Modern Auditing and Assurance Services*, Third Edition, John Wiley and Sons Australia Ltd, Milton, Queensland, 2007.

## WORLD WIDE WEB (WWW) SITES

### Web CT:

Students can access the Web site for ACCG 340 from either their home/office (via modem) or at University computers.

The url is: <http://online.mq.edu.au>

### myMQ : Macquarie Student Portal

The Student Portal is now available to all students. myMQ, the student portal, provides the gateway to information for current students. The myMQ Portal has been designed to bring all student resources to one location to access all of their university resources. The Portal contains links to: Student Email-Calendar - On Line Teaching Facility - Library catalogue and reserve systems - eStudent - Unit home pages- and many other student and university resources. Additional services will be added throughout the year and future initiatives will include a portal for University staff.

The Student Portal home page is located at <https://my.mq.edu.au>

### RELATIONSHIP BETWEEN ASSESSMENT AND LEARNING OUTCOMES:

The following forms of assessment will be undertaken during the semester:

Tutorial work and participation	5%
Mid-semester assignment	10%
Mid-semester test	25%
Final examination	60%
<b>Assessment Total</b>	<b>100%</b>

To obtain a pass in the course, it is necessary to:

- (a) attempt ALL assessment components, and
- (b) obtain a pass in the final examination, and
- (c) obtain an overall passing grade for the course.

### MID-SEMESTER ASSIGNMENT:

The mid-semester assignment is due **by Friday 17 October 2008**. Late assignments will incur a 20% penalty if submitted prior to 9am Monday 20<sup>th</sup> October and a further 10% per day thereafter (assignments submitted after 9am Monday will receive a 30% penalty, assignments submitted on Tuesday 40% and so on). **Note that non-submission of the assignment will result in an automatic fail grade for the unit.**

This assignment will be completed in groups (maximum 4 students per group). Your tutor will allocate groups once tutorial enrolments have been finalised, in weeks 3-4. Further details about the content of the assignment and instructions for lodgement will be provided prior to the mid-semester break.

### MID-SEMESTER TEST:

The mid-semester test will be held on **Saturday 11 October 2008 at 2.30 pm.** The test will be of 90 minutes duration with ten minutes of reading time. It will encompass topics covered in lectures 1 to 6 (weeks 1 to 6) inclusive.

Students who do not attend the mid-semester examination have until **Friday 17 October 2008** to lodge an application for special consideration with the Student Centre. Students must provide documentary evidence to support their appeal. Students must also email the lecturer-in-charge to ensure that all requests are processed. Results of appeals for special consideration and details for the supplementary exam will be posted on the unit webpage by **Friday 24 October 2008**. The supplementary exam is provisionally scheduled for Friday 31 October 2008, but final details will be provided on the webpage.

### FINAL EXAMINATION:

The final examination will be **two (2) hours with ten minutes reading time.** Note that marks may be deducted for poor grammar, spelling and expression.

Material that is examinable is

- all material presented at lectures,
- all material included in the prescribed text and additional readings (including all questions at the end of each chapter),
- all tutorial assignment questions, and
- material in the Auditing Standards that is referred to in the lecture notes or that relates to tutorial assignment questions.

**Note that the Auditing Handbook and calculators are NOT permitted to be taken into the final exam.**

The university examination period for Semester 2 2008 is from 19 November 2008 to 5 December 2008. You are expected to present yourself for examination at the time and place designated in the Examination Timetable. The timetable will be in draft form before the commencement of the examinations at the following web address:

<http://www.timetables.mq.edu.au/exam/>

Please note that students who do not attend the officially time-tabled examination because of a misread timetable will automatically be given a failure grade (FA). Such students will not be given special consideration or permission to sit for supplementary examinations unless the student can demonstrate that the circumstances are so exceptional as to fall outside the reasonable application of the rule.

The only exception to not sitting an examination at the designated time is because of documented illness or unavoidable disruption. In these

circumstances you may wish to consider applying for Special Consideration. Information about unavoidable disruption and the special consideration process is available at

<http://www.reg.mq.edu.au/Forms/APSCon.pdf>

Note that a Supplementary Examination is only granted where a student has demonstrated satisfactory coursework. **For the purposes of ACCG 340, satisfactory coursework would not be demonstrated where a student has obtained an aggregate within-semester assessment of less than 16 out of 40.**

If a Supplementary Examination is granted as a result of the Special Consideration process the examination will be scheduled after the conclusion of the official examination period.

You are advised that it is Macquarie University policy not to set early examinations for individuals or groups of students. All students are expected to ensure that they are available until the end of the teaching semester, which is the final day of the official examination period.

#### UNIVERSITY POLICY ON GRADING:

Academic Senate has a set of guidelines on the distribution of grades across the range from fail to high distinction. Your final result will include one of these grades plus a standardised numerical grade (SNG).

On occasion your raw mark for a unit (i.e., the total of your marks for each assessment item) may not be the same as the SNG which you receive. Under the Senate guidelines, results may be scaled to ensure that there is a degree of comparability across the university, so that units with the same past performances of their students should achieve similar results.

It is important that you realise that the policy does not require that a minimum number of students are to be failed in any unit. In fact it does something like the opposite, in requiring examiners to explain their actions if more than 20% of students fail in a unit.

The process of scaling does not change the order of marks among students. A student who receives a higher raw mark than another will also receive a higher final scaled mark.

For an explanation of the policy see

<http://www.mq.edu/senate/MQUonly/Issues/Guidelines2003.doc> or  
<http://www.mq.edu.au/senate/MQUonly/Issues/detailedguidelines.doc>

## GRADE REVIEWS AND EXAM SCRIPT VIEWING

If you honestly believe that an error has occurred that has affected your final grade and you have supporting evidence, you may:

- a) view your exam script - **deadline to register on the EFS website is 10:00 am 22 December 2008**; exam script viewing is on 23 and 24 December 2008, 5 January 2009 only; and
- b) if necessary lodge a Grade Review application (in person or by proxy at ERIC) **by 12.30pm on 5 January 2009**.

for further information on these two processes please refer to [http://www.efs.mq.edu.au/current/ug/admin\\_central/grade\\_appeals](http://www.efs.mq.edu.au/current/ug/admin_central/grade_appeals).

## PLAGIARISM:

The University defines plagiarism in its rules: "Plagiarism involves using the work of another person and presenting it as one's own. " Plagiarism is a serious breach of the University's rules and carries significant penalties. You must read the University's practices and procedures on plagiarism. These can be found in the *Handbook of Undergraduate Studies* or on the web at: <http://www.student.mq.edu.au/plagiarism/>

The policies and procedures explain what plagiarism is, how to avoid it, the procedures that will be taken in cases of suspected plagiarism, and the penalties if you are found guilty. Penalties may include a deduction of marks, failure in the unit, and/or referral to the University Discipline Committee.

## STUDENT SUPPORT SERVICES:

Macquarie University provides a range of Academic Student Support Services. Details of these services can be accessed at: <http://www.student.mq.edu.au>

In particular, students should note that auditing requires a good command of English, particularly written English. The following services are available:

### **Writing Skills Program**

The Writing Skills Program is open to all Macquarie students and offers:

- FREE short courses on essay writing in weeks 6-10 each semester
- FREE individual consultations on academic writing (by appointment).

For more information check the website at: [http://www.ling.mq.edu.au/support/writing\\_skills/index.htm](http://www.ling.mq.edu.au/support/writing_skills/index.htm)

## English for Academic Purposes (EAP)

The EAP Program is open to all Macquarie students who have a language background other than English. It offers:

- FREE workshops on pronunciation and grammar
- FREE individual 30 minute consultations on academic writing (by appointment)
- units for credit on academic writing and research skills (EAP100 and EAP101)

For more information check the **EAP Noticeboard** (opposite W3A 407) **at the start of semester** or contact:

Lorraine Sorrell      9850 9936      [lorraine.sorrell@ling.mq.edu.au](mailto:lorraine.sorrell@ling.mq.edu.au)  
Margaret Gillam      9850 6781      [margaret.gillam@ling.mq.edu.au](mailto:margaret.gillam@ling.mq.edu.au)

## International Study Skills Adviser – Justin Dutch

The International Study Skills Adviser offers:

- FREE individual or small group consultations on academic writing (by appointment)
- FREE workshops run throughout semester on topics such as:
  - Understanding and Preparing Assignments
  - Improving Academic Writing
  - Proofreading Techniques
  - Essay Writing; Report Writing; Referencing

For more information check the website at:

<http://www.international.mq.edu.au/StudentServices/StudySupport/index.html>

## Student Support Service

The Student Support Service is open to all Macquarie students and offers:

- lots of useful web-based information about writing and referencing (and more)
- FREE 1 hour learning skills seminars throughout semester
- interactive online tutorials about 'time management' and 'effective academic reading'

For more information check the websites at:

Web-based info:      <http://www.sss.mq.edu.au/learning/undergrad/>

Workshops:

<http://www.sss.mq.edu.au/counselling/workshops/learning.htm>

Online tutorials:      <http://online.mq.edu.au/pub/UCHSTIME/>

## Writing Gateway

The Writing Gateway is an interactive online guide to academic literacy, covering topics such as referencing, plagiarism etc. An MQID is required to access it at the following website: <http://online.mq.edu.au/pub/EDUCGATEWAY/>

DETAILED COURSE OUTLINE:

<b>Schedule of topics</b>			
<b>Week No</b>	<b>Week Commences</b>	<b>Lecturer</b>	<b>Topic</b>
1	4 Aug	AJ	Introduction to audit and assurance services and the auditing profession
2	11 Aug	AJ	Elements of the financial reporting audit process
3	18 Aug	BC	Knowledge of the business and evaluating strategic business risk
4	25 Aug	BC	Inherent risk assessment and materiality, introduction to internal control
5	1 Sep	BC	Internal control structure, assessing and testing control risk
6	8 Sep	CS	Substantive tests of transactions and balances – Cash, Investments, Debtors and Sales
7	15 Sep	<b>Conception Day</b> — No tutorials or lectures this week	
8	7 Oct	CS	Substantive tests of transactions and balances – Inventory, Property, Plant & Equipment, Creditors and Expenses; use of CAATs  <b>MID-SEMESTER EXAM Saturday 11<sup>th</sup> October</b>
9	13 Oct	CS	Completing the audit/Opinion formulation  <b>MID-SEMESTER ASSIGNMENT DUE by 7pm Friday 17<sup>th</sup> October</b>
10	20 Oct	JH	Professional ethics
11	27 Oct	AJ	Legal responsibilities
12	3 Nov	AJ	Other assurance services and internal auditing
13	10 Nov	AJ	Revision

Lecturers:

AJ = Alicia Jiang; BC = Brett Considine; JH = James Hazelton; CS = Chris Searchfield

<p style="text-align: center;"><b>Lecture 1</b> <b>Introduction to audit and assurance services and the auditing profession</b></p>
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**References:**

Gay and Simnett Chapters 1 and 2.

ASA 100 Preamble to AUASB Standards

ASA 200 Objective and General Principles Governing an Audit of a Financial Report

ASA 220 Quality Control for Audits of Historical Financial Information

**Tutorial Questions:**

**1.9, 1.13, 1.16, 1.18, 1.27, 1.32, 2.12, 2.13, 2.14, 2.17**

<p style="text-align: center;"><b>Lecture 2</b> <b>Elements of the Financial Reporting Audit Process</b></p>
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**References:**

Gay and Simnett Chapter 5

ASA 230 Audit Documentation

ASA 315 Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement

ASA 500 Audit Evidence

**Tutorial Questions:**

Lecture 1 multiple choice questions (download from 340 website);

**5.5, 5.7, 5.8, 5.9, 5.12, 5.16, 5.24, 5.25, 5.27**

**Lecture 3**  
**Knowledge of the Business & Evaluating Strategic Business Risk**

**References:**

Gay and Simnett Chapter 6  
ASA 210 Terms of Audit Engagement  
ASA 220 Quality Control for Audits of Historical Financial Information  
ASA 300 Planning an Audit of a Financial Report  
ASA 315 Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement  
ASA 330 The Auditor's Procedures in Response to Assessed Risks  
ASA 510 Initial Engagements – Opening Balances  
ASA 520 Analytical Procedures

**Tutorial Questions:**

Lecture 2 multiple choice questions (download from 340 website);

**6.5, 6.6, 6.11, 6.13, 6.17, 6.21, 6.30**

**Lecture 4**  
**Inherent Risk Assessment and Materiality, Introduction to Internal Control**

**References:**

Gay and Simnett Chapter 7  
Gay and Simnett Chapter 8 to page 362  
ASA 240 The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report  
ASA 300 Planning an Audit of a Financial Report  
ASA 320 Materiality and Audit Adjustments  
ASA 315 Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement  
ASA 570 Going Concern

**Tutorial Questions:**

Lecture 3 multiple choice questions (download from 340 website);

**7.2, 7.5, 7.7, 7.12, 7.17, 7.24, 8.3, 8.14**

**Lecture 5**  
**Internal Control Structure, Assessing and Testing Control Risk**

**References:**

Gay and Simnett Chapter 8  
Gay and Simnett Chapter 9  
ASA 315 Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement  
ASA 330 The Auditor's Procedures in Response to Assessed Risks  
ASA 500 Audit Evidence  
AGS 1018 IT Environments – Stand-Alone Personal Computers  
AGS 1020 IT Environments – On-Line Computer Systems  
AGS 1022 IT Environments – Database Systems  
AGS 1060 Computer Assisted Audit Techniques

**Tutorial Questions:**

Lecture 4 multiple choice questions (download from 340 website);

**8.23, 8.25, 9.7, 9.11, 9.14, 9.19, 9.28**

**Lecture 6**  
**Substantive Tests of Transactions and Balances – Cash, Investments, Debtors and Sales**

**References:**

Gay and Simnett Chapter 10  
Messier, Glover & Prawitt Chapter 16 (download from e-reserve)  
ASA 500 Audit Evidence  
ASA 505 External Confirmations  
ASA 545 Auditing Fair Value Measurements and Disclosures  
AGS 1002 Bank Confirmation Requests

**Tutorial Questions:**

Lecture 5 multiple choice questions (download from 340 website);

**G&S            10.8, 10.9, 10.24, 10.29**  
**M,G&P        16.6, 16.24, 16.26**

**Lecture 7**  
**Substantive Tests of Transactions and Balances – Inventory, Property, Plant & Equipment, Creditors and Expenses; use of CAATs**

**References:**

Gay and Simnett Chapter 10  
Messier, Glover & Prawitt Chapter 13 (download from e-reserve)  
ASA 500 Audit Evidence  
ASA 501 Existence and Valuation of Inventory  
ASA 505 External Confirmations  
ASA 545 Auditing Fair Value Measurements and Disclosures  
AGS 1060 Computer Assisted Audit Techniques

**Tutorial Questions:**

Lecture 6 multiple choice questions (download from 340 website);

**G&S**            **10.12, 10.13, 10.14, 10.15, 10.28, 10.29, 10.30, 10.34**  
**M,G&P**        **13.29, 13.33**

**Lecture 8**  
**Completing the audit – Opinion Formulation**

**References:**

Gay and Simnett Chapter 12 and 13  
ASA 560 Subsequent Events  
ASA 570 Going Concern  
ASA 580 Management Representations  
ASA 700 The Audit Report on a General Purpose Financial Report  
ASA 701 Modifications to the Auditor's Report  
ASA 710 Comparatives  
ASA 720 Other Information in Documents Containing Audited Financial Reports  
AASB 110 Events After the Balance Sheet Date

**Tutorial Questions:**

Lecture 7 multiple choice questions (download from 340 website);

**12.5, 12.6, 12.15, 12.18, 12.31, 13.7, 13.8, 13.27, 13.29**

## Lecture 9 Professional ethics

### References:

Gay and Simnett Chapter 3

Maines, T. Dean, and Kenneth Goodpaster. 2006. 'The Corporate Scandals of 2002: Arthur Andersen LLP', In *Business Ethics*. New York: McGraw-Hill Irwin. (download from e-reserve)

APES 110 Code of Ethics for Professional Accountants (download from <http://www.apesb.org.au/>)

ASA 240 The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report

AGS 1014 Privy Letter Requests

### Tutorial Questions:

Lecture 8 multiple choice questions (download from 340 website);

### 3.4, 3.12, 3.13, 3.18, 3.24

Questions from the Maines and Goodpaster reading:

1. What were Andersen's four cornerstones? How did they become 'three pebbles and a boulder'?
2. What were the issues on the Enron audit that led to Andersen's demise? Which aspects of the APES 110 general threats to independence did Andersen breach?
3. What are the five general threats to independence in APES 110 (AUST 290.28.1 – 290.28.8)? From your answer to question 2, which are relevant to the Enron case?
4. Was Arthur Andersen a 'bad apple' or is it just a matter of time before another major audit firm collapses?

## **Lecture 10**

### **Legal responsibilities**

#### **References:**

Gay and Simnett Chapter 4

ASA 240 The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report

ASA 250 Consideration of Laws and Regulations in an Audit of a Financial Report

AGS 1014 Privity Letter Requests

#### **Tutorial Questions:**

Lecture 9 multiple choice questions (download from 340 website);

**4.5, 4.6, 4.10, 4.14, 4.17, 4.25, 4.31**

## **Lecture 11**

### **Other Assurance Services and Internal Auditing**

#### **References:**

Gay and Simnett Chapter 14 and 15

Pentland, B. 2000. *Will auditors take over the world? Program, technique and the verification of everything*. Accounting, Organisations and Society 25 (3):307-312. (download from e-reserve)

ASA 610 Considering the Work of Internal Audit (previously AUS 604)

ASA 800 The Auditor's report on Special Purpose Audit Engagements (previously AUS 802)

ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity

#### **Tutorial Questions:**

Lectures 10 and 11 multiple choice questions (download from 340 website);

**14.6, 14.12, 14.19, 14.20, 15.5, 15.9, 15.16,**

Questions from the Pentland reading:

1. Why does Pentland suggest the boundaries of the auditing profession are different from the boundaries of doctors or lawyers?
2. What are the implications for the way organisations behave if auditing becomes more common?
3. Why does Pentland claim that auditors are more like movie critics than laboratory scientists? Do you agree?