

School of Accounting and Commercial Law

**ACCY 406 AUDITING**

Trimester One 2012

**COURSE OUTLINE**

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<b>Names and Contact Details</b>	<b>Office</b>	<b>Telephone</b>
<i>Course Coordinator &amp; Lecturer:</i> Professor Karen Van Peurse <a href="mailto:Karen.VanPeurse@vuw.ac.nz">Karen.VanPeurse@vuw.ac.nz</a> Office hours: TBA	RH702	463 6314
<i>Lecturer:</i> Tim Fairhall <a href="mailto:Tim.Fairhall@vuw.ac.nz">Tim.Fairhall@vuw.ac.nz</a>	RH 631	463 6709
Course Administrator: Rebekah Sage <a href="mailto:Rebekah.Sage@vuw.ac.nz">Rebekah.Sage@vuw.ac.nz</a> Office hours: Monday-Friday, 8.30am-5pm (Note: Office closed 10.30am-10.45am and 3.30pm-3.45pm)	RH 708	463 7465

Please contact the Course Administrator regarding attendance or other inquiries of an administrative nature.

**Class Times, Dates and Room Numbers**

Monday: 1:40-4:30pm RH G02

**Teaching Period**

Monday 5 March – Friday 8 June

There is no final exam in this course.

**Course Delivery**

The course will be delivered through case-based discussion, lecturer-guided analysis, and student-led research project presentations. There may be occasional guest participation.

**Course Material**

A fee will be charged for Course Materials and Handouts. There is no text requirement.

## Course Objectives

The purpose of this course is to inspire interest in and an understanding of the role of the auditor and of the profession. Fraud audit, environmental audit, computer audit, public sector audit and internal audit topics introduce you to the range of assurance services provided in New Zealand and internationally. There is also an interest in introducing you to audit research. Through investigating an issue of interest to you, there is the intent to enhance your investigation and analysis skills, theory-informed critical analysis abilities and communication skills – both oral and written. Debates on modern audit dilemmas, lecturer-led computer applications and case-based discussions round out the course designed to further develop this range of knowledge and skill.

## Expected Workload

A total of 150 hours of work is expected from students in this course. That consists of 33 hours of classes and approximately ten hours per week outside class during teaching weeks spent reading, studying, preparing for presentations and writing your research report.

## Assessments

A summary of course assessment is as follows (details can be found later in this outline):

<i>Assessment item</i>	<i>Made up of:</i>	<i>% of Mark</i>
Written analyses of articles (3)		20%
Research Project:		
Proposal	10%	
Presentation	20%	
Research paper	40%	70%
Participation		
Team-mate presentation feedback	5%	
Current issues debate	5%	10%
<b>Total</b>		100%

*PENALTIES:* Due dates, times and conditions are firm, it is expected that students will meet the deadlines set in this course. A penalty of 10% of the mark earned per day for lateness of any written element will be deducted up to one week late. After that, no mark will be attached to that work. Marks may be negatively influenced for exceeding maximum word counts or for, where indicated, not being present throughout teaching sessions. Failure to show for a presentation will result in an ‘incomplete’.

*CONSIDERATION REQUESTS:* Written requests will be considered should serious and unanticipated circumstances prevent you from completing an item or attending an event on time. If you believe that timely completion of an assessment is impeded by such a circumstance contact the Course Coordinator by email as soon as you become aware of the situation. For your request to be considered, you will also ultimately have to provide strong evidence of the situation. No outcome is guaranteed; a reasonably high bar is applied to such requests.

### Quality Assurance Note

Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning objectives as required for accreditation and audit purposes. The findings may be used to inform changes aimed at improving the quality of FCA programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.

### **Communication of Additional Information**

New information or information on any changes will be provided in-class.

### **Withdrawal from Courses:**

Information available via:

Withdrawal dates: Late withdrawals with Associate Dean (Students) permission  
(See Section 8: Withdrawals - from the Personal Courses of Study Statute)

<http://policy.vuw.ac.nz/Amphora!~~policy.vuw.ac.nz~POLICY~000000001743.pdf>

Withdrawal dates: refunds:

<http://www.victoria.ac.nz/home/admisenrol/payments/withdrawalsrefunds.aspx>

### **Mandatory Course Requirements**

In order to pass this course, students are required to obtain at least 50% of the overall course marks available, and submit and (as appropriate) participate in assessed aspects of the course.

### **ASSESSMENT DETAIL<sup>1</sup>**

#### **Written Analyses**

Discussions held on weeks 4, 7 and 9 will focus on the following three topics, on which you are required to write, bring to class on the date due and submit an analysis as described below:

- 1) **Analysis 1 (10%)** Based on the articles assigned in weeks 2-4, and supported from outside material you may deem suitable, come to a view as to why and in what way auditing is more than a 'tick and check' process. That is, what sorts of social, political and economic pressures create challenges for the auditor and why? You may focus on one or two aspects of the auditor's role that you deem most suitable. Your analysis should be a maximum of 1000 words (800-1000 recommended).
- 2) **Analysis 2 (5%)** Based on the articles assigned in weeks 6-7, explain why the auditor has an obligation to the public. You may focus on external auditors, internal auditors or both (and compare). Your analysis should be a maximum of 500 words (400-500 recommended).
- 3) **Analysis 3 (5%)** Based on the article(s) assigned in week 9, and on other and related readings you deem suitable, explain what makes 'fraud audit' *different* from an external financial statement audit, and what mandates that such differences exist? You can focus

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<sup>1</sup> **WARNING:** Please include a 'word count' for all written assignments for this course. It *must* fall within the maximum (inclusive of tables, references etc). Exceeding the maximum word count will affect your grade to the negative.

on one or two aspects and your analysis should be a maximum of 500 words (400-500 recommended).

In all three analyses, please use the APA citation method to cite and reference sources (it should be a 'reference' listing, that is, only those you cite not those you happen to read). The marking criteria for all three apply equally to: (a) A well-developed position; (b) Writing quality: grammar, paragraph structure, citation/reference quality etc; and (c) Use of sources to support your position. Your presence in class will influence borderline marks to the better. Each written analysis – computer printed, double-spaced – is due at the end of class on the week specified (see Course Timetable).

### **Research Project**

This is your opportunity to conduct research on a topic of interest to you. The topic can be in any area of audit generally. Week 3 (in particular) will be a time in which new and researchable topics will be explored, and week 5 (in particular) will be a time in which you will be introduced to basic research principles and methods. There are both written and presentation elements to the research project, designed to give you feedback on your ideas and achievements as the trimester progresses. Therefore, the assessment for this project is in the form of three parts, the Proposal, the (final) Presentation and the Research Paper as described below:

- 1) **Proposal (10%)** Your written proposal should consist of a maximum of 750 words, consisting of a short background to your question, aim statement, objectives, methods (within a 'methodology'), chapter purpose list, anticipated literature to be accessed and anticipated contribution of the study (not findings!). Proposal marking criteria will apply equally as to the: (a) Internal consistency of the project described, including clarity of purpose; (b) Writing and referencing quality; and (c) Presentation quality(see 2)(a)&(c)). You will be asked to present your proposal in class (week 5), for this please prepare a one-page OHP or PowerPoint proposal summary and plan a short (7-10 minute) presentation on your proposal.
- 2) **Presentation (20%)** This refers to your final presentation (*not* the 'proposal' presentation) to be scheduled for one of weeks 7-11 (class-size dependent). You should plan on a 55-60 minute presentation (including class discussion) plus 10 minutes of feedback time (from your team-mate) for a total maximum of 70 minutes. In your 55-60 minutes, please disclose the need for, purpose and objectives of your project, and discuss your methods, literature, theory, findings, and implications. You can include a class discussion game or exercise if desired to liven up the discussion. *NB: You must provide your team-mate with a one-page presentation summary one week prior to your presentation.*

Marking criteria will apply equally to the: (a) Oral presentation quality, including clarity and engagement with the class (no reading from notes or overheads!); (b) Extent and rigour of your project as to its method, use of literature and theoretical informant; and (c) Display order, logic & quality, on-time provision of summary to your team-mate & time/class management.

- 3) **Research paper (40%)** This refers to the writeup of your research project. It should be a maximum of 5000 words (4000-5000 recommended) which consists of the elements of your proposal (now fully developed) together with your findings, analysis

or discussion and conclusion. Marking criteria will apply equally as to the: (a) Integrity of the project, in terms of its internal consistency, clear and informed development of purpose; (b) Extent and quality of your fieldwork; (c) Quality and depth of your literature review; (d) Quality of your writeup (grammar, paragraphing, citation format etc) and (e) Quality of theoretical analysis.

All assessments related to the Research Project are due at the time specified in the Course Timetable. Reports should be handed into the School Office by 12.00 noon on Thursday 7 June 2012. Graded Research papers will be available from the School Office by 6 July 2012.

### Participation

We need you to be there! Much of the learning in this course is achieved through participation. You are expected to attend, and participate, in full and in all classes. While 10 marks directly relate to participation, your presence throughout is important and valued.

- 1) **Team-Mate Presentation feedback (5%)** You will be ‘teamed’ up with another member of the class. This assessment refers to your giving constructive feedback on your team-mate’s project throughout the semester and within a short (7-10 minute) presentation right *after* their final presentation. You and your team-mate are asked to consult each other on your projects as needed and throughout the course. On the day of your team-mate’s final presentation, and using topics from the Feedback Form (below) and a maximum of two OHPs or PP sheets, you are asked to give a presentation on their project. You need to be sufficiently informed of their literature to be able to comment on their research. Personal or derogatory comments are unacceptable and could be subject to disciplinary procedures if extreme. Marking criteria will apply equally as to: (a) Ongoing support (as indicated by your team-mate); (b) Presentation quality and constructiveness of comments; and (c) Apparent knowledge of this topic.

<b>Feedback Format for the presentation of your team-mate</b>
Presentation quality and suggestions for future presentations.
Methods you used were appropriate and rigorous? Suggestions?
Did the literature and theory used seem appropriate? Any recommendations?
Implications of your findings seemed reasonable? Suggestions?

- 2) **Debates (5%)** This refers to an in-class exercise in which you (or your team) are asked to take a position (pro- or con-) on an issue related to one of our audit topics. The debate format will give each team an opportunity to offer their position, and have one (or more) rejoinders. The mark will apply equally to: (a) Position strength; (b) Evidence of your having researched the topic and finally; (c) Your ability to respond to ‘challenges’ to your position. This is meant to be a fun exercise demonstrating the challenge faced by auditors making difficult decisions.

### COURSE TIMETABLE– ACCY 406 - Trimester 1 2012

Week		Content	Required Readings	Date
1	5 Mar	Introduction and review	(Review audit process, audit opinion and report and legal/regulatory framework notes from your intro class)	
2	12 Mar	Audit Theory	Van Peurseem K.A. and Pratt M.J. (2006). Theories of auditing. (Chapter 2) Auditing: Practice and Theory in New Zealand. Auckland: Pearson.	
3	19 Mar	Current Issues	Van Peurseem, K.A. (2005). Audit challenges: Dilemmas for the auditor in a global economy. <i>Asian Academy of Management Journal of Accounting and Finance</i> , 1, pp 53-66.	
4	26 Mar	Audit Concepts & Standards	Pratt, M.J. and Van Peurseem, K.A. (1993), Towards a Conceptual Framework for Auditing, <i>Accounting Education</i> 2(1), pp 11-32. ISA (NZ) 200: Overall objective of the independent auditor and the conduct of an audit in accordance with International Standards on Auditing (NZ))	Written Analysis #1: Thursday Noon
5	2 Apr	Research Methods: An Introduction	Collis, J. & Hussey, R. (2003). <i>Business Research: A Practical Guide for Undergraduate and Postgraduate Students</i> (2nd Edtn). Bristol England: Aarontype Ltd, 2 chapters TBA	Submit Proposals: Thursday Noon
<i>Teaching Recess</i>				
6	23 Apr	Professionalism  Profession and Ethics	Burns, D.C., Greenspan, J.W and Hartwell, C., (1994), The state of professionalism in internal auditing, <i>The Accounting Historians Journal</i> , Vol 21 No 2, pp 86-116. Preuss, L., (1998). On ethical theory in auditing, <i>Managerial Auditing Journal</i> , 13(9), pp 500-508.	
7	30 Apr	Internal Audits <i>Presentations</i>	Van Peurseem, K.A. (2005). Conversations with internal auditors: The power of ambiguity. <i>Managerial Auditing Journal</i> , 20(5). Pp 489-512.	Written Analysis #2: Thursday Noon
8	7 May	Computer audit practices <i>Presentations</i>	Van Peurseem, K.A. and Pratt, M.J. (2006). Auditing computerised accounting systems: Advanced issues, <i>Auditing: Theory and practice in New Zealand</i> , pp 332-355. (This will include a demonstration if systems allow)	
9	14 May	Fraud Audit <i>Presentations</i>	Rezaee, Z. (2004). Restoring public trust in the accounting profession by developing anti-fraud education, programs, and auditing. <i>Managerial Auditing Journal</i> , 19(1), pp 134-148. ISA (NZ) (2009). The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements. Wellington: NZICA.	Written Analysis #3: Thursday Noon
10	21 May	Environmental Audit <i>Presentations</i>	Blumenfeld, K., (1989), Dilemmas of disclosure: Ethical issues in environmental auditing, <i>Business and professional Ethics Journal</i> , Vol 8 No 3, pp 5-28.	
11	28 May	Public Sector Audits	Icerman, R.C. and Hillison, W., (1989), Risk and materiality in governmental audits, <i>Association of Government Accountants Journal</i> , Fall, pp 51-61.	Debates: In Class
12	4 June		Monday: Queen's B-day – No Class	Research Paper: Thursday Noon

### **Suggested Supplementary Readings:**

#### *Independence and Ethics*

Antle, R. (1984). Auditor independence. *Journal of Accounting Research*, 22.

Miller, T. (1992). Do we need to consider the auditor when discussing auditor independence? *Accounting, Auditing & Accountability Journal*, 5(2), 74-84.

#### *Research Methods*

Greenfield, T. (Ed.) (2002). *Research Methods for Postgraduates*. London: Arnold.

#### *Accountability of the auditor*

Sinclair, A. (1995). The chameleon of accountability: Forms and discourses. *Accounting, Organizations and Society*, Vol. 20 No. 2/3, 219-237.

Laughlin, R. (2007). Critical reflections on research approaches, accounting regulation and the regulation of accounting, *The British Accounting Review*, 39, 271-289.

IFAC (2011). International Standards of Auditing (ISAs).

NZICA (2011). Auditing Standards and Audit Guidance Statements.

#### *Public Sector Auditing*

Van Peurse, Karen (2009). Conceptual framework for PBE reporting: A meaningful basis for 'sector neutrality'. *Financial Reporting, Regulation and Governance*, 8(1): 1-30.

Skaerbak, P. (2009). Public sector audit identities in making efficiencies auditing: The National Audit office of Denmark as independent auditor and modernizer. *Accounting, Organizations and Society*, 34(8), 971-987.

Carnegie, G.D. and West, B.P, (2005). Making accounting accountable in the public sector, *Critical Perspectives in Accounting*, 16(7), 905-928.

Van Peurse, K.A. and Balme, A. (2010). Threats to the New Zealand Serious Fraud Office: An institutional perspective. *Qualitative Research in Accounting & Management*, 7(3), 304-328.

#### *Professions*

Lee, T. (1995). "The professionalization of accountancy", *Accounting, Auditing & Accountability Journal*, 8(4), 48-69.

Mataira, K. and Van Peurse, K. (2010), An examination of disciplinary culture: Two professional accounting associations in New Zealand, *Accounting Forum*, 34(2): 109-122.

Zeff, S. A. (1992), "The decline of professionalism", *De Accountant*, January, The Netherlands.

Simmons, C., Neu, D., Davis, M. and Wright, M. (1996), "Auditing: discourse and practice", *Accounting Forum*, 20(2), 163-184.

#### *Corporate Boards and Auditors*

Gendron, Y. and Bedard, J. (2006). On the constitution of audit committee effectiveness. *Accounting, Organizations and Society*, 31(3), 211-239.

Cohen, J., Krishnamoorthy, G. and Wright, A.M. (2002). Corporate governance and the audit process. *Contemporary Accounting Research*, 19(4), 573-594.

Rezaee, Z., Olibe, K.O. and Mimmier, G. (2003), "Improving corporate governance: The role of audit committee disclosures", *Managerial Auditing Journal*, 18(6/7), 530-537

Branston, J.R., Cowling, K., and Sugden, R. (2006). "Corporate governance and the public interest", *International Review of Applied Economics*, 20(2), 189-212.

#### *Company Failure and Going Concern Opinion*

Van Peurseem, K.A. and Pratt, M.J. (2002). A New Zealand failure prediction model: Development and international implications. *International Advances in Accounting*, 15, 229-247.

Shalich, M. and Taliha, J. (2003), Credibility and expectation gap in reporting on uncertainties. *Managerial Auditing Journal*, 18(6/7).

Van Peurseem, K.A., Locke, J.L. and Harnisch, N.P. (2005). Going concern guidance for New Zealand auditors: Transitions in communicative acts. *Critical Perspectives on Accounting*, 17, 109-137.

#### *Judgement and Psychology: Some classics*

Einhorn, H., and Hogarth, R. (1981). Behavioural decision theory: Processes of judgment and choice, *Journal of Accounting Research*, 19, 1-31.

Gibbins, M. (1981). Propositions about the psychology of professional judgment in public accounting, *Journal of Accounting Research*, 22(1), 103-125.

#### *Materiality and Risk*

Blokdijk, H., Driehuisen, F., Simunic, D.A and Sen, M.T. (2003). Factors affecting auditors' assessments of planning materiality. *Auditing: A Journal of Practice and Theory*, 22(2), 297-307.

Stringer, J.J. (1989). An early contribution of Kenneth W. Tucker: Development and dissemination of the audit risk model. *Accounting Horizons*, June, 28-37.

Eilefsen, A., Knechel, R. and Wallach, P. (2001). Application of the business risk audit model: A field study. *Accounting Horizons*, 15(3), 193-207.

#### *Evidence and Sampling: Classics and Practicalities*

Toba, Y., (1975). A general theory of evidence as a conceptual foundation in auditing theory. *Accounting Review*, 7-24.

Holstrum, G.A. and Mock, T.J. (1985), Audit judgment and evidence evaluation: A synopsis of issues and research papers, *Auditing: A Journal of Practice and Theory*, 5(1).

Van Peurseem, K.A. and Pratt, M.J. (2006). Audit Sampling. *Auditing: Theory and Practice in New Zealand*. 304-331. Auckland: Pearson Education.

#### *Evidence and Systems*

McDaniel, L. and Simmons, L. (2007). Auditors' assessment and incorporation of expectation precision in evidential analytical procedures. *Auditing: A Journal of Practice and Theory*, 26(1), 1-18.

Chan, D.Y. and Vasarhelyi, M.A. (2011). Innovation and practice of continuous auditing, *International Journal of Accounting Information Systems (in proof)*.

#### *Fraud Audit*

Zahra S.A., Priem R.L., and Rasheed A.A., (2007) Understanding the causes and effects of top management fraud, *Organizational Dynamics*, Vol. 36, No 2, 122 – 139.

Kaminski, K.A., Wetzel, T.S. and Guan, L. (2004). Can financial ratios detect fraudulent financial reporting?. *Managerial Auditing Journal*, 19(1), 15-28.



Bourke, N.M., Van Peurse, K.A. and Eggleton, I. (2008), Corporate governance and fraudulent reporting: Relationships Examined, Paper presented at the Accounting and Finance Conference of Australia and New Zealand, 5-8 July 2008, Sydney.

*Internal Audit: Role and Expectations*

Rittenberg, L. And Covaleski, M.A. (2001). Internalization versus externalization of the internal audit function: An examination of professional and organizational imperatives. *Accounting, Organizations and Society*, 26(7/8), 617-641.

*Small Firm and New Zealand Audit Issues*

Van Peurse, K.A. and Jiang, L. (2008). Internal audit outsourcing practice and rationales: SME evidence from New Zealand. *Asian Review of Accounting*, 16(3), 219-245.

Van Peurse, K.A. and Wells, P.K. (2000). Contracting services in SMEs: A case of New Zealand professional accounting firms. *International Small Business Journal*, 19(1), 73, 68-82.

Van Peurse, K.A. and Pratt, M.J. (2006). Failure prediction in New Zealand SMEs: measuring signs of trouble. *International Journal of Business Performance Management*, 8(2/3), 259-269.

### **Class Representative**

A class representative will be elected in the first class, and that person's name and contact details will be available to VUWSA, the Course Coordinator and the class. The class representative provides a communication channel to liaise with the Course Coordinator on behalf of students.

### **Use of Turnitin**

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine <http://www.turnitin.com>. Turnitin is an on-line plagiarism prevention tool which compares submitted work with a very large database of existing material. At the discretion of the Head of School, handwritten work may be copy-typed by the School and subject to checking by Turnitin. Turnitin will retain a copy of submitted materials on behalf of the University for detection of future plagiarism, but access to the full text of submissions will not be made available to any other party.

*NB:* Your assessed work may be used for quality assurance purposes, such as to assess the level of achievement of learning objectives as required for accreditation and audit purposes. The findings may be used to inform changes aimed at improving the quality of FCA programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.

**For the following important information follow the links provided:**

**Academic Integrity and Plagiarism**

<http://www.victoria.ac.nz/home/study/plagiarism.aspx>

**General University Policies and Statutes**

Find key dates, explanations of grades and other useful information at [www.victoria.ac.nz/home/study](http://www.victoria.ac.nz/home/study)

Find out about academic progress and restricted enrolment at <http://www.victoria.ac.nz/home/study/academic-progress.aspx>

The University's statutes and policies are available at [www.victoria.ac.nz/home/about/policy](http://www.victoria.ac.nz/home/about/policy), except qualification statutes, which are available via the Calendar webpage at <http://www.victoria.ac.nz/home/study/calendar.aspx> (See Section C).

Further information about the University's academic processes can be found on the website of the Assistant Vice-Chancellor (Academic) at [www.victoria.ac.nz/home/about\\_victoria/avcacademic/default.aspx](http://www.victoria.ac.nz/home/about_victoria/avcacademic/default.aspx)

**AVC (Academic) Website: information including: Conduct, Academic Grievances, Students with Impairments, Student Support**

[http://www.victoria.ac.nz/home/about\\_victoria/avcacademic/Publications.aspx](http://www.victoria.ac.nz/home/about_victoria/avcacademic/Publications.aspx)

**Faculty of Commerce and Administration Offices**

<http://www.victoria.ac.nz/fca/studenthelp/>

**Te Putahi Atawhai**

**Maori and Pacific Mentoring Programme**

<http://www.victoria.ac.nz/tpa/>