



This course supports the assessment for Advanced Auditing. The course covers 6 competencies and represents 3 competency units.

## Introduction

### Overview

The Advanced Auditing course introduces the basic concepts, standards, procedures, and practices of auditing, the changing role of the independent auditor, professional conduct and ethics, auditor's reporting responsibilities, risk assessment, internal control, evidential matter, and management fraud. This course is designed to help students examine how the role of internal and external auditing can best be performed through studying cases of audit activities.

What is an audit? According to Arens, Elder, and Beasley (2014), "Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be done by a competent, independent person" (p. 4). Therefore, an audit is an evaluation of the evidence, accounting records, and supporting documentation used to verify the accuracy of the reported financial information. Auditors' reports on financial statements have always been perceived as a "stamp of approval" on a company's financial report. However, in the early 21<sup>st</sup> century, fraud scandals rocked the world, and the once prominent CPA firm of Arthur Andersen went out of business. Investors' perception of CPAs deteriorated. New laws and procedures for audits were put into effect an effort to restore investor confidence.

### Getting Started

Welcome to C244, Advanced Auditing! In this course, your primary learning resource is the Pearson e-Text. It contains review and discussion questions, as well as self-checks to help you gain mastery of the concepts. Some activities within this course will direct you to utilize the Financial Accounting Standards Board (FASB) database. Finally, there are additional web activities that take you to specific websites to explore authentic experiences in the field. Your competency will be assessed by a performance assessment.

Watch the following video for an introduction to this course:

*Note: To download this video, right-click the following link and choose "Save as...":* [download video](#).

### Competencies

This course provides guidance to help you demonstrate the following 6 competencies:

- **Competency 3031.1.1: Professional Ethics and Legal Liability**  
The graduate applies ethical and legal professional standards in a business environment to perform a variety of assurance activities.
- **Competency 3031.1.2: Assurance, Attestation and Internal Auditing**  
The graduate knows the different types of engagements performed by CPAs and the



standards that apply to each.

- **Competency 3031.1.3: Auditing Business Processes**

The graduate plans, assesses risk and performs audit procedures on various business processes.

- **Competency 3031.1.4: Fraud Detection**

The graduate applies appropriate auditing procedures to detect fraud.

- **Competency 3031.1.5: Sampling**

The graduate uses statistical and nonstatistical sampling methods to test controls and audit assurances.

- **Competency 3031.1.6: Conducting an Audit**

The graduate documents audit evidence and communicates the results of an audit.

### **Course Instructor Assistance**

While you prepare to demonstrate competency in this subject, remember that course instructors stand ready to help you reach your educational goals. As subject matter experts, mentors enjoy and take pride in helping students become reflective learners, problem solvers, and critical thinkers. Course instructors are excited to hear from you and eager to work with you.

Successful students report that working with a course instructor is the key to their success. Course instructors are able to share tips on approaches, tools, and skills that can help you apply the content you're studying. They also provide guidance in assessment preparation strategies, troubleshoot areas of deficiency, and guide you through the revision process if necessary. You should expect to work with course instructors for the duration of your coursework, so you are welcome to contact them as soon as you begin. Course instructors are fully committed to your success!

## **Preparing for Success**

The information in this section is provided to detail the resources available for you to use as you complete this course.

### **Learning Resources**

The learning resources listed in this section are required to complete the activities in this course. For many resources, WGU has provided automatic access through the course. However, you may need to enroll manually or acquire other resources independently. Read the full instructions provided to ensure that you have access to all of your resources in a timely manner.

#### **Automatically Enrolled Resources**

You can access the learning resources listed in this section by clicking on the links provided throughout the course. You may be prompted to log in to the WGU student portal to access the resources.

### **Wiley CPAexcel**

Wiley CPAexcel is a series of video resources designed to align with the course topics. Click on the provided links to view the video content.



## **Pearson E-Text**

The following textbook is available to you as an e-text within this course. You will be directly linked to the specific readings required within the activities that follow.

- [Arens, A.A. \(2014\). \*Auditing and assurance services: An integrated approach\* \(15<sup>th</sup> ed.\). New Jersey: Pearson Education. Print ISBN-10: 0-13-312563-7; ISBN-13: 978-0-13-312563-4.](#)

*Note: This e-text is available to you as part of your program tuition and fees, but you may purchase a hard copy at your own expense through a retailer of your choice. If you choose to do so, please use the ISBN listed to ensure that you receive the correct edition.*

## **Minimum Technical Requirements**

### **Obtain a Calculator**

You will need a financial calculator or access to spreadsheet software, such as Microsoft Excel, for computational problems throughout this course. The recommended financial calculator is the Texas Instruments BA-II Plus. You may only use an approved financial calculator during the pre-assessment and assessment for this course. You are unable to use Excel during the assessments.

### **Other Learning Resources**

### **Financial Accounting Standards Boards Database**

Activities within this course will direct you to utilize the Financial Accounting Standards Board (FASB) database. Here is the log-in information for access to the [FASB Codification database](#).

Log in at the link above using the following information:

- Username: AAA52071
- Password: 2ExZr8V

## **Topics and Pacing**

This outline is a guided structure of the topics recommended to complete the learning activities. It is provided as a suggested structure and can be adapted according to your knowledge, skills, and experience. Use the topics and pacing outline to support your completion of the course within the recommended timeframe.

### **Week 1**

- Preparing for Success
- Standards for Engagement

### **Week 2**

- Professional Ethics

### **Week 3**



- Legal Liabilities
- Evidence Research for Auditing

#### Week 4

- Preparing for an Audit

#### Week 5

- Procedures to Detect Fraud
- Sampling Methods

#### Week 6

- Business Process Audits

#### Week 7

- Performing Business Process Audits
- Completing the Audit

#### Week 8

- Final Steps

## **Advanced Auditing**

Accountants provide a variety of services as independent agents or as part of a firm. Their services cover a wide range of tasks including, but not limited to, audits of financial statement, assurance services, information systems security reviews, and fraud investigation. Advanced accounting covers issues in auditing and attestation, financial accounting and reporting, regulations, and fraud. Practice exercises and discussion are included to allow individuals an opportunity to assess his/her skills and knowledge in preparation for the CPA exam.

### **Standards for Engagements**

The author of the course e-text states that an audit should be done by an independent person. Certified Public Accountants (CPAs), who report on the audits of financial statements, are independent of the company on which they report. In this section, you will be introduced to the types of engagements performed by CPAs, the auditing standards they must follow, and CPA firms' quality control requirements.

This topic addresses the following competency:

- **Competency 3031.1.2: Assurance, Attestation and Internal Auditing**  
The graduate knows the different types of engagements performed by CPAs and the standards that apply to each.



This topic highlights the following objectives:

- Provide an overview of assurance and attestation services.
- Explain the various professional services provided by CPA firms.
- Explain generally accepted auditing standards (GAAS).
- Discuss the quality control standards followed by CPA firms.

**Read: Chapter 1 and Chapter 2 Sections**

In this section, you will be introduced to the roles and services CPAs perform. You will also learn the generally accepted auditing standards (GAAS) that a CPA must follow while performing an audit, and the purpose of quality control as it applies to the CPA firm.

As you read the listed material below, pay attention to the following key points:

- assurance services
- activities of CPA firms
- generally accepted auditing standards
- statements on auditing standards
- quality control

Read the following in *Auditing and Assurance Services*:

- Pages 8-12 in [Chapter 1: "The Demand for Audit and Other Assurance Services"](#)
- Pages 27-41 in [Chapter 2: "The CPA Profession"](#)

View the following video:

- ["Professional Standards"](#) (5:09)

### **Web Activity: Standards**

Review [QC Sec.10: A CPA Firm's System of Quality Control](#)

- Review [AICPA's web site](#) and the [Codification of Audit Standards](#)
- Review [AU Sec.110: Responsibilities and Functions of the Independent Auditor](#)
- Review the AICPA's [Statements on Quality Control Standards](#)

### **Apply: Review and Discussion**

Complete the Chapter 1 and Chapter 2 homework assignments and any associated weekly work when noted.

- [Chapter 1: "The Demand for Audit and Other Assurance Services"](#)
- [Chapter 2: "The CPA Profession"](#)

To find each homework assignment, click on "chapter homework" on the landing page, and then



look for the homework in the list of assignments. Complete each item in the homework.

### **Self-Check: Review for Mastery**

To view the multimedia resources available for this topic, select your chapter from the drop-down menu and choose either flashcards or PowerPoint.

- [Review the flash cards and PowerPoint for Chapter 1.](#)
- [Review the flash cards and PowerPoint for Chapter 2.](#)

## **Professional Ethics**

In this section, you will be introduced to professional ethics. Can an action be non-ethical and legal? Can an action be illegal but ethical? You will review why ethical conduct is necessary in professions. You will be introduced to the AICPA's Code of Professional Conduct.

This topic addresses the following competency:

- **Competency 3031.1.1: Professional Ethics and Legal Liability**  
The graduate applies ethical and legal professional standards in a business environment to perform a variety of assurance activities.

This topic highlights the following objectives:

- Differentiate ethical from unethical behavior.
- Resolve an ethical dilemma.
- Explain standards that govern professional conduct and ethical behavior in the auditing profession.
- Define independence as it applies to the auditing profession.
- Explain other rules of conduct, beyond independence, that may apply to ethics in accounting.
- Explain possible repercussions for failing to follow the rules of conduct.

### **Read: Chapter 4**

Plainly speaking, "Ethics is how you react to temptation when no one is looking" (Wells, 2004, p. 411). CPAs are often faced with choices of action that might be legal, but unethical. In this section, you are introduced to ethics and the ethical dilemma and why it is important for the CPA profession to have a Code of Ethics. You will also learn why it is important for a CPA to have the perception of independence, as well as actual independence.

Reference: Wells, J. T. (2004). *Corporate fraud handbook: Prevention and detection*. Hoboken, New Jersey: John Wiley & Sons, Inc.

As you read the listed material below, pay attention to the following key points:

- definition of ethics
- ethical dilemmas
- special need for ethical conduct in professions



- codes of professional conduct
- independence rules of conduct and interpretations
- other rules of conduct
- enforcement

Read the following *in Auditing and Assurance Services*:

- Pages 77-103 in [Chapter 4: "Professional Ethics"](#)

View the following videos:

- ["Introduction and Preface"](#) (9:20)
- ["Public Company Accounting Oversight Board \(PCAOB\)"](#) (13:39)
- ["Department of Labor \(DOL\)"](#) (3:22)

### **Web Activity: Violations in Hindsight**

As you read the article below, think about how Fastow justified and defended his actions.

- [The Confessions of Andy Fastow](#)
  - Think about how Fastow defended the claim that while he knew his actions were non-ethical, his actions were legal.
- [PACOB rule 3520: Auditor Independence Section](#). What is Rule 3520? To whom does it apply?

### **Apply: Review and Discussion**

Complete the Chapter 4 homework:

- [Chapter 4: "Professional Ethics"](#)

To find each homework assignment, click on "chapter homework" on the landing page via supplied active link and then look for the homework on the list of assignments. Complete each item in the homework.

### **Self-Check: Review for Mastery**

To view the multimedia resources available for this topic, select your chapter from the drop down menu and choose either flashcards or PowerPoint.

- [Review the flash cards and PowerPoint for Chapter 4.](#)

### **For Your Reference**

Below, you will find the AICPA Code of Professional Conduct for your reference. You will need to refer to this critical document to be successful in completing the assessment.

- [AICPA Code of Professional Conduct](#)

### **Legal Liabilities**



In this section, you will be introduced to the legal environment in which CPAs operate. CPAs not only have a liability to their clients, they have a liability to any "foreseen" users of the audited financial statements. You will also be introduced to SEC 1933, 1934, Foreign Corrupt Practices Act of 1977, and Sarbanes-Oxley Act of 2002. You will review the accounting profession's response to legal liability.

This topic addresses the following competency:

- **Competency 3031.1.1: Professional Ethics and Legal Liability**

The graduate applies ethical and legal professional standards in a business environment to perform a variety of assurance activities.

This topic highlights the following objectives:

- Describe the litigious environment in which CPAs practice.
- Explain the differences between business failure, audit failure, and audit risk.
- Determine an accountant's legal liability in auditing situations.
- Describe the legal liability that auditors have to their clients.
- Describe the legal liability that an auditor has to third parties under common law.
- Explain an auditor's civil liability under federal securities laws.
- Explain ways auditors can protect themselves from liability.

**Read: Chapter 5**

Business failure, audit failure, and audit risk are concepts that underlie lawsuits against CPAs. You will be introduced to the CPA's legal liability, including criminal liability under federal and state laws, and you will also learn specific actions that help protect CPAs from legal liability.

As you read the listed material below, pay attention to the following key points:

- legal environment
- business failure
- audit failure
- audit risk
- liability to clients and to third parties
- civil liability
- criminal liability

Read the following in *Auditing and Assurance Services*:

- Pages 113-131 in [Chapter 5: "Legal Liability"](#)

**Read Chapter 6**

Read the following in *Auditing and Assurance Services*:

- Pages 141-164 in [Chapter 6: "Audit Responsibilities and Objectives"](#)

**Apply: Review and Discussion**





Complete the Chapter 5 and Chapter 6 homework assignments and any associated weekly work when noted.

- [Chapter 5: "Legal Liability"](#)
- [Chapter 6: "Audit Responsibilities and Objectives"](#)

To find each homework assignment, click on "chapter homework" on the landing page via supplied active link and then look for the homework on the list of assignments. Complete each item in the homework.

### **Self-Check: Review for Mastery**

To view the multimedia resources available for this topic, select your chapter from the drop-down menu and choose either flash cards or PowerPoint.

- [Review the flash cards and PowerPoint for Chapter 5.](#)
- [Review the flash cards and PowerPoint for Chapter 6.](#)

### **For Your Reference**

Below, you will find key auditing legislation. You will need to refer to these critical documents to be successful in completing the assessment.

- [Securities Exchange Act of 1934](#)
- [SEC Rules of Practice](#)
- [Sarbanes-Oxley Act of 2002](#)
- [Securities Act of 1933](#)

## **Evidence Research for Auditing**

In the introduction to this course, we defined auditing as "an evaluation of the evidence." Now you are going to review the different types, characteristics, and appropriateness of evidence. Finally, you will learn how to document the evidence for the audit.

This topic addresses the following competency:

- **Competency 3031.1.6: Conducting an Audit**  
The graduate documents audit evidence and communicates the results of an audit.

This topic highlights the following objectives:

- Describe the characteristics of evidence found in research to perform a credible audit.
- Explain types of audit evidence and how each is used in auditing procedures to gather data.
- Create documentation used to list the procedures in an audit, the evidence, and the conclusions.

### **Read: Chapter 7**

Arens argues that auditors most likely will not be "completely convinced" that their audit opinion



is correct. What do they mean? Why conduct an audit if the auditors are unsure of their opinion? In Chapter 1, you learned the one attestation service a CPA conducts is an audit of the historical financial statements. A standard paragraph included in the auditors' report states, "We conducted our audit in accordance with auditing standards generally accepted in (the country where the report is issued). Those standards require that we plan and perform the audit *to obtain reasonable assurance* [italics added] about whether the financial statements are free of material misstatement. An audit includes *examining, on a test basis, evidence supporting the amounts and disclosures* [italics added] in the financial statements."

The key to understanding evidence is to understand the "persuasiveness" of evidence. Is the evidence appropriate and sufficient? In this chapter you are introduced to "evidence."

As you read the listed material below, pay attention to the following key points:

- nature of evidence
- audit evidence
- audit documentation

Read the following in *Auditing and Assurance Services*:

- Pages 174-196 in [Chapter 7: "Audit Evidence"](#)

View the following video:

- ["Overview of Substantive Procedures"](#) (17:59)

### **Apply: Review and Discussion**

Complete the Chapter 7 homework:

- [Chapter 7: "Audit Evidence"](#)

To find each homework assignment, click on "chapter homework" on the landing page via supplied active link and then look for the homework on the list of assignments. Complete each item in the homework.

### **Self-Check: Review for Mastery**

To view the multimedia resources available for this topic, select your chapter from the drop-down menu and choose either flash cards or PowerPoint.

- [Review the flash cards and PowerPoint for Chapter 7.](#)

## **Preparing for an Audit**

Almost everyone has heard of Enron and the massive fraud perpetrated by management. How did this fraud go undetected for so long? Was it the complexity of their business structure, or the complexity of the laws under which Enron operated? In this section you will be introduced to audit planning, including the importance of knowing when you should accept a new client, and



the importance of understanding the client's business and industry in which they operate. You will learn to analyze business risk, to compute analytical procedures used in planning an audit, and to determine which audit tests are appropriate under certain circumstances.

This topic addresses the following competency:

- **Competency 3031.1.3: Auditing Business Processes**

The graduate plans, assesses risk and performs audit procedures on various business processes.

This topic highlights the following objectives:

- Explain the purpose of audit planning.
- Create a plan to meet the requirements for a client audit.
- Analyze a client's business, industry, and risks.
- Complete preliminary steps to implement the audit procedures.
- Develop a testing program to be used in the auditing process.
- Determine the steps to complete an audit program.

**Read: Chapter 8 and Chapter 13 Sections**

According to Arens, et al. (2014, p. 208), proper audit planning will "enable the auditor to obtain sufficient appropriate evidence..., keep audit costs reasonable, and to avoid misunderstandings with the client." In Chapter 8, you will learn the steps necessary to plan an audit. You will also learn the types of analytical procedures performed during the audit. Chapter 13 will introduce you to the overall audit strategy. You will learn the types of audit tests and their appropriate use. Finally, Chapter 13 concludes with a summary of the audit process.

As you read the listed material below, pay attention to the following key points:

- audit planning
- client's business: understanding
- client's business: risk
- analytical procedures
- financial ratios
- audit strategies
- audit design
- audit tests

Read the following in *Auditing and Assurance Services*:

- Pages 207-232 in [Chapter 8: "Audit Planning and Analytical Procedures"](#)
- Pages 401-410, 412-425 in [Chapter 13: "Overall Audit Strategy and Audit Program"](#)

View the following video:

- ["Pre-Engagment Planning Issues"](#) (11:31)



## Apply: Review and Discussion

Complete the Chapter 8 and Chapter 13 homework:

- [Chapter 8: "Audit Planning and Analytical Procedures"](#)
- [Chapter 13: "Overall Audit Plan and Audit Program"](#)

To find each homework assignment, click on "chapter homework" on the landing page via supplied active link and then look for the homework on the list of assignments. Complete each item in the homework.

## Self-Check: Review for Mastery

To view the multimedia resources available for this topic, select your chapter from the drop-down menu and choose either flash cards or PowerPoint.

- [Review the flash cards and PowerPoint for Chapters 8.](#)
- [Review the flash cards and PowerPoint for Chapters 13.](#)

## Procedures to Detect Fraud

What is fraud? While there are many definitions, they all contain common elements: (1) an act of trickery or deceit, (2) intentional misrepresentation, and (3) to defraud or to induce another to act to his or her detriment. The Association of Certified Fraud Examiners (ACFE) reported in their *2012 Report to the Nations* that the typical organization loses 5% of its revenue to fraud every year. They also reported that the average fraud lasts 18 months before being detected.

In this topic you will be introduced to the various types of fraud and the risk factors that allow fraud to occur. You will also learn auditors' responsibilities to assess the risk for fraud.

This topic addresses the following competency:

- **Competency 3031.1.4: Fraud Detection**  
The graduate applies appropriate auditing procedures to detect fraud.

This topic highlights the following objectives:

- Describe the various types of fraud.
- Explain the risk factors that allow fraud to occur.
- Explain the responsibilities of an auditor when fraud is suspected.
- Assess fraud risk using both financial and nonfinancial information.
- Identify organizational factors that contribute to fraud risk.

## Read: Chapter 11

"Where were the auditors?" Arens, et al. (2014, p. 333) illustrates a fraud case perpetrated in the 1920s called the McKesson-Robbins scandal, in which inventory and sales were inflated by \$19 million. One of the earliest recorded frauds occurred in 300 B.C. and involved a scheme in



which a merchant tried to defraud his investor. Now, over 2,300 years later, fraud is still occurring. In this chapter, you will distinguish between fraudulent financial reporting and misappropriation of assets. You will examine Donald R. Cressey's Fraud Triangle and review the 2012 Report to the Nations, a semi-annual report published by the Association of Certified Fraud Examiners. In the final section, you will learn how to assess the risk of fraud, and the responsibilities of the CPA when fraud is suspected.

As you read the listed material below, pay attention to the following key points:

- types of fraud
- conditions of fraud
- responsibilities when fraud is suspected
- assessing the risk
- corporate governance oversight

Read the following in *Auditing and Assurance Services*:

- Pages 333-359 in [Chapter 11: "Fraud Auditing"](#)

#### **Web Activity: Report to the Nations**

- Read the key findings and highlights from the [2016 Report to the Nations](#).

#### **Apply: Review and Discussion**

Complete the Chapter 11 homework:

- [Chapter 11: "Fraud Auditing"](#)

To find each homework assignment, click on "chapter homework" on the landing page via supplied active link and then look for the homework on the list of assignments. Complete each item in the homework.

#### **Self-Check: Review for Mastery**

To view the multimedia resources available for this topic, select your chapter from the drop-down menu and choose either flash cards or PowerPoint.

- [Review the flash cards and PowerPoint for Chapter 11.](#)

## **Sampling Methods**

Investors have the perception that financial statements are correct because the information was audited by a CPA, and the CPA signed the report. What the investor sometimes fails to realize is that auditors do not review every transaction. To do so would be cost prohibitive for the company, not to mention the time it would take to review all transactions could negate the value of the information as it becomes outdated. The auditor uses a method called "sampling" to obtain sufficient evidence that the financial statements are materially correct. In this section, you will be introduced to the concept of sampling, the different types of sampling, and how the



samplings are used.

This topic addresses the following competency:

- **Competency 3031.1.5: Sampling**

The graduate uses statistical and nonstatistical sampling methods to test controls and audit assurances.

This topic highlights the following objectives:

- Compare statistical sampling to nonstatistical sampling.
- Apply various sampling techniques that can be employed when using statistical sampling.
- Apply the various sampling techniques that can be employed when using nonstatistical sampling.
- Account for nonstatistical audit sampling.
- Account for statistical audit sampling.

**Read: Chapter 15**

Chapter 7 introduces the concept of appropriate and sufficient evidence. In Chapter 13, you were introduced to the five types of tests used to determine if the financial statements are fairly stated. How do you choose the evidence to be included in the test? Now in Chapter 15, you will be introduced to sampling methods and the risks associated with sampling.

As you read the listed material below, pay attention to the following key points:

- statistical and non-statistical sampling
- probabilistic and non-probabilistic sampling
- sample selection method
- audit sampling

Read the following in *Auditing and Assurance Services*:

- Pages 475-504 in [Chapter 15: "Audit Sampling for Tests of Controls and Substantive Tests of Transactions"](#)

View the following videos:

- ["Introduction to Sampling"](#) (13:03)
- ["Probability-Proportional-to-Size \(PPS\) Sampling"](#) (14:41)

**Apply: Review and Discussion**

Complete the Chapter 15 homework:

- [Chapter 15: "Audit Sampling for Tests of Controls and Substantive Tests of Transactions"](#)



To find each homework assignment, click on "chapter homework" on the landing page via supplied active link and then look for the homework on the list of assignments. Complete each item in the homework.

### **Self-Check: Review for Mastery**

To view the multimedia resources available for this topic, select your chapter from the drop-down menu and choose either flash cards or PowerPoint.

- [Review the flash cards and PowerPoint for Chapter 15.](#)

## **Business Process Audits**

This topic introduces the audit of acquisitions and payables. You will learn the classes of transactions, accounts, business functions, and related documents for both acquisitions and payables, and will review the types of tests designed to audit each of these areas.

This topic addresses the following competency:

- **Competency 3031.1.6: Conducting an Audit**  
The graduate documents audit evidence and communicates the results of an audit.

This topic highlights the following objectives:

- Describe the components and business functions of the acquisition and payment cycle.
- Explain tests of control and substantive tests of transactions for acquisitions.
- Describe why accounts payable is important in the audit of acquisition and payment cycles.
- Perform an audit analysis of the asset and liability accounts in a typical company.

### **Read: Chapter 18 and Chapter 19 Sections**

In the introduction to Chapters 18 and 19, two fraud cases are examined where the executives committed financial statement fraud through the false recording of acquisitions and payments. To understand how these frauds occurred, the auditor must first understand the business functions and related documents and records within the acquisition and payments cycle.

As you read the listed material below, pay attention to the following key points:

- audit of the acquisition
- payment cycle
- business functions
- related documents and records
- methodology for designing tests
- completing tests

Read the following in *Auditing and Assurance Services*:



- Pages 593-613 in [Chapter 18: "Audit of the Acquisition and Payment Cycle"](#)
- Pages 625-642 in [Chapter 19: "Completing the Tests in the Acquisition and Payment Cycle: Verification of Selected Accounts"](#)

### **Apply: Application Activity**

Complete the Chapter 18 and Chapter 19 homework:

- [Chapter 18: "Audit Acquisition and Payment Cycle: Tests of Control, Substantive Tests of Transactions..."](#)
- [Chapter 19: "Completing the Tests in the Acquisition and Payment Cycle: Verification of Selected Accounts"](#)

To find each homework assignment, click on "chapter homework" on the landing page via supplied active link and then look for the homework on the list of assignments. Complete each item in the homework.

### **Self-Check: Review for Mastery**

To view the multimedia resources available for this topic, select your chapter from the drop-down menu and choose either flash cards or PowerPoint.

- [Review the flash cards and PowerPoint for Chapter 18.](#)
- [Review the flash cards and PowerPoint for Chapter 19.](#)

## **Performing Business Process Audits**

In this topic you are introduced to the audit of payroll and inventory. You will learn the classes of transaction, accounts, business functions, and related documents for both payroll and inventory, and will review the types of tests designed to audit each of these areas.

This topic addresses the following competency:

- **Competency 3031.1.6: Conducting an Audit**  
The graduate documents audit evidence and communicates the results of an audit.

This topic highlights the following objectives:

- Explain the components and relationship of business functions of the HR and payroll department.
- Perform tests of controls and substantive tests of transactions for a payroll and personnel cycle.
- Describe components and business functions of the inventory and warehouse cycle.
- Identify other accounts that are integrated with the inventory and warehouse cycle and the methods of auditing those accounts.

### **Read: Chapter 20 and Chapter 21**

Chapters 18 and 19 introduced the acquisition and payable cycles. In Chapters 20 and 21, you





will learn the classes of transactions, accounts, business functions, and related documents for the inventory and warehousing cycle, and the capital acquisition and repayment cycle. You will review the types of tests designed to audit each of these areas.

As you read the listed material below, pay attention to the following key points:

- audit of the payroll
- personnel cycle
- business functions in the cycle
- tests of balances
- audit of the inventory
- warehousing cycle
- physical observation of inventory

Read the following in *Auditing and Assurance Services*:

- Pages 651-665 in [Chapter 20: "Audit of the Payroll and Personnel Cycle"](#)
- Pages 673-691 in [Chapter 21: "Audit of the Inventory and Warehousing Cycle"](#)

### **Apply: Review and Discussion**

Complete the Chapter 20 and Chapter 21 homework:

- [Chapter 20: "Audit of the Payroll and Personnel Cycle"](#)
- [Chapter 21: "Audit of the Inventory and Warehousing Cycle"](#)

To find each homework assignment, click on "chapter homework" on the landing page via supplied active link and then look for the homework on the list of assignments. Complete each item in the homework.

### **Self-Check: Review for Mastery**

To view the multimedia resources available for this topic, select your chapter from the drop-down menu and choose either flash cards or PowerPoint.

- [Review the flash cards and PowerPoint for Chapter 20.](#)
- [Review the flash cards and PowerPoint for Chapter 21.](#)

## **Completing the Audit**

In the preceding topics, you learned the roles of CPAs, the role that fraud has played in the changing legal environment, and how to plan and conduct an audit. In this last topic you will learn how to wrap up the audit. You see how though the financial statements are dated at a certain point in time, as the auditor you will need to review events that have occurred subsequent to the balance sheet date. Also, you will be introduced to the management representation letter and the report to management.

This topic addresses the following competency:



- **Competency 3031.1.6: Conducting an Audit**

The graduate documents audit evidence and communicates the results of an audit.

This topic highlights the following objectives:

- Perform audit tests for presentation and disclosure.
- Conduct a post-balance-sheet review for subsequent events.
- Identify final evidence responsibilities.
- Evaluate audit evidence and communicate the results to management.

**Read: Chapter 24**

In Chapter 24, you are introduced to the final section of the audit, the wrap-up phase. In this section you will learn how to effectively wrap up the audit and communicate your findings to management.

As you read the listed material below, pay attention to the following key points:

- tests for presentation and disclosure
- review for contingent liabilities and commitments
- final evidence review
- evaluating results
- issuing the audit report
- communicating results of the audit

Read the following in *Auditing and Assurance Services*:

- Pages 750-772 in [Chapter 24: "Completing the Audit"](#)

**Apply: Review and Discussion**

Complete the Chapter 24 homework:

- [Chapter 24: "Completing the Audit"](#)

To find each homework assignment, click on "chapter homework" on the landing page via supplied active link and then look for the homework on the list of assignments. Complete each item in the homework.

**Self-Check: Review for Mastery**

To view the multimedia resources available for this topic, select your chapter from the drop-down menu and choose either flash cards or PowerPoint.

- [Review the flash cards and PowerPoint for Chapter 24.](#)

**Final Steps**



Congratulations on completing the activities in this course! This course has prepared you to complete the assessment associated with this course. If you have not already been directed to complete it, schedule and complete your assessment now.