



**Credit Hours:** 3

**Contact Hours:** This is a 3-credit course, offered in accelerated format. This means that 16 weeks of material is covered in 8 weeks. The exact number of hours per week that you can expect to spend on each course will vary based upon the weekly coursework, as well as your study style and preferences. You should plan to spend 14-20 hours per week in each course reading material, interacting on the discussion boards, writing papers, completing projects, and doing research.

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## **COURSE DESCRIPTION AND OUTCOMES**

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### **Course Description:**

This course offers a study of systematic process of external financial statements and management assertion verification and reporting. Students will examine internal and external auditing processes through the application of artificial intelligence (AI). Students will develop an understanding of the Sarbanes-Oxley Act (SOX), IFRS implications, internal controls, risk assessments, and professional ethics and legal liability. Based on current trends in the auditing profession, students will use software programs used extensively in the auditing profession to analyze data. Students will complete a simulation involving an independent audit of a company to include statistical sampling involving current AI technology.

### **Course Overview:**

In this course, you will study the systematic process by which external financial statements and management assertions are verified and reported, including auditing procedures, standards and programs, the examination of financial statements, and the preparation of audit working papers. In addition, you will explore the organization of the accounting profession, the new influences of the Public Company Accounting Oversight Board, and the professional ethics and legal liability of auditors; as well as internal controls, the cycle approach, the audit risk model, sampling methodologies, automation, business intelligence, and data analytics.

You will need to access Lynda.com to view some of the course materials. Links for these will be provided in the Module folder rather than the Interactive Lectures.

### **Course Learning Outcomes:**

1. Explain the need and demand for auditing and assurance services and the ethical standards in performing such services.
2. Describe the different types of audit reports and the circumstances for their use.
3. Analyze the role of the audit risk model in conducting an audit.
4. Apply the cycle approach to an audit while evaluating management assertions within each audit.
5. Utilize sampling techniques and data analytics tools in gathering and evaluating audit evidence.
6. Demonstrate knowledge of the auditing process in a simulation involving artificial intelligence (AI).

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## PARTICIPATION & ATTENDANCE

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Prompt and consistent attendance in your online courses is essential for your success at CSU-Global Campus. Failure to verify your attendance within the first 7 days of this course may result in your withdrawal. If for some reason you would like to drop a course, please contact your advisor.

Online classes have deadlines, assignments, and participation requirements just like on-campus classes. Budget your time carefully and keep an open line of communication with your instructor. If you are having technical problems, problems with your assignments, or other problems that are impeding your progress, let your instructor know as soon as possible.

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## COURSE MATERIALS

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**Textbook Information is located in the CSU-Global Booklist on the Student Portal.**

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## COURSE SCHEDULE

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### Due Dates

The Academic Week at CSU-Global begins on Monday and ends the following Sunday.

- **Discussion Boards:** The original post must be completed by Thursday at 11:59 p.m. MT and peer responses posted by Sunday at 11:59 p.m. MT. Late posts may not be awarded points.
- **Opening Exercises:** Take the Opening Exercise before reading each week's content to see which areas you will need to focus on. You may take these exercises as many times as you need. The Opening Exercises will not affect your final grade.
- **Mastery Exercises:** Students may access and retake Mastery Exercises through the last day of class until they achieve the scores they desire.
- **Critical Thinking:** Assignments are due Sunday at 11:59 p.m. MT.
- **Live Classroom:** Although participation is not required, Live Classroom sessions are held during [Week 2 and Weeks 5 or 6/Weeks 1, 3, 5, and 7]. There are [two/four] total sessions. (Note that your course may have NO live sessions. If not, remove this section and all Live Classroom sessions from the course schedule.)

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## WEEKLY READING AND ASSIGNMENT DETAILS

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### Module 1

#### Required Readings

- Chapter 1: "Quality Auditing: Why it Matters?" in *Auditing: A Risk-Based Approach*
- Chapter 2: "The Auditor's Responsibilities regarding Fraud and Mechanisms to Address Fraud: Regulation and Corporate Governance" in *Auditing: A Risk-Based Approach*

#### Opening Exercise (0 points)

#### Discussion (25 points)

#### Live Classroom (0 points)

#### Critical Thinking (60 points)

### Option #1: Ethics & Professional Skepticism

In 2005, Jill Smith was an audit senior working for a public accounting firm on the audit engagement of the ABC company. One of Jill's friends asked her whether she thought that ABC stock was a good investment. She said yes.

Her friend offered to purchase ABC stock on her behalf. Jill provided \$5000 for the purchase placed under her friend's name. She didn't want her name associated with it because of independence concerns; an auditor is not allowed to own stock in a company that they audit.

Auditors that own stock in companies they audit as considered part owners, and therefore not independent. This may infer with an unbiased audit because they may make decisions in the best interest of the client instead of external users. Even if they do conduct an unbiased audit, if they are stock holders, they may not be perceived as unbiased.

Jill continued working on the ABC company account into 2006, and she failed to comply with the firm's independence policies by lying on the yearly disclaimer. The public accounting firm launched an internal investigation into the matter based on an anonymous tip and terminated her employment. The PCAOB barred her from serving as an external auditor for a period of at least one year.

- a. What are the unethical actions of the auditor, Jill Smith?
- b. Discuss what her decisions in this case cost her? Was it worth it?
- c. What are some of the current rules in relation to the independence of an auditor?
- d. In this case, compare independence in fact versus independence in appearance.
- e. Do you think that Jill's punishment was appropriate? Explain your answer.

Your written response paper should be 3-4 pages in length. Please type your assignment up in a Word document and follow APA format, according to the CSU-Global Guide to Writing and APA. Include a title page and reference page. Use two (2) outside academic sources other than the textbook, course materials, or additional information provided as part of the course materials.

### Option #2: Bernie Madoff

Reference the Scam of the Century?: Bernie Madoff and the \$50 Billion Heist video.

A Ponzi scheme occurs when a fraudster uses deposits of new investors to payoff previous investors; no real investing is happening. A Ponzi scheme will collapse if new clients don't invest, or their investments are too small to fund a decent return to previous investors.

Ponzi schemes are based on trust and greed. The fraudster develops trust by building a relationship with the investors. The fraudster usually gains trust through their actions, their professional, social, or religious affiliations, and personal references. Fraudsters exploit the greed of their investors, who see a chance to obtain higher returns than usual. Because the investors trust the fraudster, they do not perform their normal due diligence.

In March 2009, Madoff pled guilty to 11 federal crimes and acknowledged turning his broker-dealer business into a substantial Ponzi scheme that defrauded investors out of billions. Federal investigators believe that the fraud began as early as the 1980s and the whole thing was possibly never legitimate. The fraud totaled almost \$65. On June 29, 2009, Madoff was sentenced to the maximum 150 years. He is still in prison.

Madoff was once the chair of NASDAQ and often spoke about the securities industry on CNBC. Madoff took advantage of his connections in the investment community and made it seem like it was an honor to invest with him. A Ponzi scheme can only work if plenty of funds are brought in year after year to pay off previous past investors; as such, Ponzi schemes grow exponentially until they collapse. Until that collapse, Madoff had a luxurious lifestyle.

Madoff pulled this off by omitting all the transactions from his formal books. He hired a CPA firm to audit the books, but that audit didn't really occur. In fact, the CPA was violating independence requirements by being an investor in the fund himself. For a fund of its size, it would normally be audited by a very large, high-quality audit firm. The investors were greedy and enjoyed the higher returns instead. They trusted Madoff, so they didn't perform the typical due diligence with a verifiable external audit.

It is alleged (as reported on a CNBC Primetime Special) that one of Madoff's investors was with the Russian mob and Madoff chose to turn himself in and plead guilty because he feared for both his life and that of his sons. Many have speculated that his sons helped him orchestrate the fraud: both died within a few years of the fraud being revealed. As a result of this fraud, the Public Company Accounting Oversight Board (PCAOB) began requiring broker-dealers to obtain audits using firms registered with the PCAOB, and the PCAOB now sets standards for audits of broker-dealers.

**Required:**

Please respond to the following questions:

- a. How would you describe a Ponzi scheme? What are some other examples of this type of scheme outside of this case?
- b. Describe the essential elements of the Bernie Madoff fraud. What made it so effective?
- c. Is this fraud primarily a case of asset misappropriation or fraudulent financial reporting? Explain the reason for your answer.
- d. Do you believe the PCAOB actions in this case will keep this from occurring in the future? Explain.

Your written response paper should be 3-4 pages in length. Please type your paper in a Word document and follow APA format, according to CSU-Global Guide to Writing and APA. Include a title page and reference page. Use two (2) outside academic sources other than the textbook, course materials, or additional information provided as part of the course materials.

**Mastery Exercise (10 points)**

**Module 2**

**Required Readings**

- Chapter 4: "Professional Legal Liability" in *Auditing: A Risk-Based Approach*
- Chapter 5: "Profession Auditing Standards and the Audit Formulation Process" in *Auditing: A Risk-Based Approach*

**Opening Exercise (0 points)**

**Discussion (25 points)**

**Critical Thinking (60 points)**

### Option #1: AICPA Professional Code of Conduct.

The following scenarios might constitute a violation of the AICPA's Code of Professional Conduct.

- a. Bill Murray, CPA, performs various management services for The Johnson Corporation including bookkeeping and preparing tax returns, but does not perform the audit function. One management service involved a needs assessment on computers and the identification of equipment to meet those needs. Murray recommended a product sold by a computer store, which has agreed to pay Murray a 12% commission if the Johnson Company purchases it.
- b. Emma Stone, CPA, was overbooked for the next few months. When a prospective client asked if Stone would conduct the next year's audit, she declined but referred them to Brad Paisley, CPA. Brad paid Stone \$3,000 for the referral.
- c. Manny Machado, CPA, signed on to perform an inventory control study for a new client, ABC Company. Once the study is complete, he recommends a new inventory control system. Currently, ABC engages another audit firm to audit its financial statements. The financial arrangement is that ABC will implement the new systems and over the next 5 years, the will pay Machado 50% of the savings in inventory costs.
- d. Justin Timberlake, CPA, has served as the auditor for the XYZ Corporation for many years. In addition, Timberlake has performed other services for the company. This year, the Chief Financial Officer has asked Timberlake to perform a major computer system evaluation.
- e. Due to the death of its CFO, an audit client had its external auditor, Jon Snow, CPA, perform the CFO's job for two months until a replacement was hired.

### Required:

Knowing the AICPA Code of Professional Conduct, answer the following:

- a. For each of the five scenarios, indicate which principle or rule would be violated, or if none would be violated.
- b. State why the rule would be violated.
- c. Explain if there is a way to avoid breaking the rule by doing something different in these examples.

Your written response paper should be 3-4 pages in length. Please type your assignment in a Word document and follow APA format, according to CSU-Global Guide to Writing and APA. Include a title page and reference page. Use two (2) outside academic sources other than the textbook, course materials, or other information provided as part of the course materials.

### Option #2: Legal Liability and Public Offerings

Cena Corporation raised \$7 million by making a private interstate offering of \$4 million in common stock and negotiating a \$3 million loan from Regional Bank in order to expand its operations. The common stock was properly offered pursuant to securities rules, so the 1933 Act doesn't apply, but the antifraud provisions of the Federal Securities Acts does apply.

Cena engaged Salmon, CPAs to audit their financial statements. Salmon knew that the only reason for such an audit was so for the audited financial statements to provide to Regional Bank and the buyers of the common stock. Although Salmon conducted the audit in compliance with its audit program, they failed to detect material fraud committed by Cena's president. Salmon did not notice the embezzlement because of its unintentional failure to exercise due care in designing its audit for this engagement.

Salmon rendered an unqualified audit opinion on Cena's financial statements after completion of the audit. Purchasers of the common stock relied on the financial statements in deciding whether to purchase the shares. Based on the audited financial statements, Regional Bank approved the loan to Cena. He was then involuntarily petitioned into bankruptcy in a 60 days window after selling the common stock and attaining the loan from Regional Bank. Cena became insolvent and defaulted on its loan to Regional Bank due to the president's embezzlement. This caused the common stock to be virtually worthless. The purchasers of the common stock have taken actions against Salmon for damages citing the Securities Exchange Act of 1934 and Regional Bank as a result of Salmon's negligence.

**Required:**

- a. Explain the merits of the actions commenced against Salmon by the common stock purchasers and by Regional Bank. What are the likely outcomes? Explain.
- b. What if the purchasers of the common stock were able to bring suit under the 1933 Act and client filed a registration statement initially? How would your answer differ from the previous question? Explain.
- c. What are the differences between the Securities Exchange Acts of 1933 and 1934?

Your written response paper should be 3-4 pages in length. Please type your assignment in a Word document and follow APA format, according to CSU-Global Guide to Writing and APA. Include a title page and reference page. Use two (2) outside academic sources other than the textbook, course materials, or other information provided as part of the course materials.

**Mastery Exercise (10 points)**

**Portfolio Milestone (25 points)**

**Option #1: Data Analytics with Excel**

Review the Portfolio Project Description, which can be accessed in the Week 8 folder. Additionally, take time to review the Portfolio Project Grading Rubric.

Select Option # 1 to undertake a performance of data analytics with Excel for PharmaCorp. Submit a statement indicating your choice for approval to your instructor. On your statement, please also provide a high-level timeline plan for the stages of completion of your project.

**Option #2: Data Analytics with Tableau**

Review the Portfolio Project Description, which can be accessed in the Week 8 folder. Additionally, take time to review the Portfolio Project Grading Rubric.

Select Option # 2 to evaluate and analyze the case of the ABC Company and the performance of data analytics with Tableau. Submit a statement indicating your choice for approval to your instructor. On your statement, please also provide a high-level timeline plan for the stages of completion of your project.

**Module 3**

**Required Readings**

- Chapter 6: "Audit Evidence" in *Auditing: A Risk-Based Approach*

- Chapter 7: “Planning the Audit: Identifying, Assessing and Responding to the Risk of Material Misstatement” in *Auditing: A Risk-Based Approach*

### Opening Exercise (0 points)

### Discussion (25 points)

### Critical Thinking (60 points)

#### Option #1: Analytical Procedures

Obtain the financial statements of a company with which you are familiar. The Annual report or 10K report of a publicly-traded company would be a great resource for this problem.

- Identify specific account balances for which substantive analytical procedures would be appropriate and discuss your reasoning for selecting these accounts.
- Describe in detail the type of substantive analytical procedures that would be used for these account balances and why this would be an effective test of the account balances.

Your paper should be 3-4 pages in length and include an Excel file with the company financial statements as an additional deliverable. Please follow APA format, according to CSU-Global Guide to Writing and APA. Include a title page and reference page. Use two (2) outside academic sources other than the textbook, course materials, or other information provided as part of the course materials.

#### Option #2: Auditing Standards & Materiality

The table provided to you by your instructor contains calculations of several key ratios for a fictitious company, Texanna Pharmaceutical Company, a maker of proprietary and prescription drugs.

Texanna is a small- to medium-sized publicly held pharmaceutical company. Approximately 80% of its sales has been in prescription drugs; the remaining 20% is in medical supplies over the counter.

Auditor’s calculations are used to ascertain potential risks in anticipation of an audit. Some of this data may indicate the need for other industry- or company-specific data. Many of the company’s drugs are patented and Bamatosis’ (a best seller) patent will expire in 2 years. Over the last five years, this drug alone has accounted for 20% of the company’s sales. The auditor’s evaluation is that the company’s trends this year should be similar to the trend over the last few years and won’t deviate very far from the industry norms.

Your instructor will give you the financial information to use in this case.

- a. What financial reporting risk conclusions can you draw from this information? Pinpoint high risk of material misstatement in account balances. How will you use this risk analysis in planning the audit? Identify 4 financial reporting risks that you will address during the audit and discuss how you will address those risks.
- b. What other critical background information will you want to obtain when planning the audit? When performing the audit, what information do you need? Where would you get this information from?
- c. What significant things did the company immediately do in the preceding year? Explain.
- d. Examine trends in the data using Excel and highlight these trends in the ratios over the three prior years. Discuss what you noticed in the trends.

Perform your analysis in Excel and your written portions in Microsoft Word. Please follow APA format, according to CSU-Global Guide to Writing and APA. Include a title page and reference page. Use two (2) outside academic sources other than the textbook, course materials, or other information provided as part of the course materials.

### **Mastery Exercise (10 points)**

## **Module 4**

### **Required Readings**

- Chapter 3: “Internal Control over Financial Reporting: Responsibilities of Management and the External Auditor” in *Auditing: A Risk-Based Approach*

### **Opening Exercise (0 points)**

### **Discussion (25 points)**

### **Critical Thinking (65 points)**

#### **Option #1: Public vs. Private Company Controls Standards**

Your long-time client, Colorado Company, has been growing fast, prompting the board to consider taking the company public. CEO Billy Jean has heard that due to the Sarbanes–Oxley Act, costs have increased significantly when operating a public company. Jean is especially apprehensive with reports that he can anticipate double the audit fees due to the internal control provisions of the Act and PCAOB Auditing Standard No. 2201. Jean has asked you to explain how the Sarbanes–Oxley requirements may affect the audit.

#### **Required:**

Organize and share your thoughts if the company decides to go public. How would complying with the Sarbanes–Oxley and PCAOB Auditing Standard No. 2201 change the company’s responsibilities for internal control? Then use your thoughts to:

- Describes the changes in internal controls (due to PCAOB and Sarbanes-Oxley standards) needed once they become a public company.

Your deliverable should be 3-4 pages in length. Please type your response in a Word document and follow APA format, according to CSU-Global Guide to Writing and APA. Include a title page and reference page. Use two (2) outside academic sources other than the textbook, course materials, or other information provided as part of the course materials.

#### **Option #2: Tests of Controls: Processing and Output Controls**

Matt’s Company’s audit team is evaluating the internal controls that for the automated processing of payroll transactions. The following controls have been identified as being important in this processing as part of the understanding and assessment stages:

- a. A system log is generated and reviewed on a weekly basis to identify an unauthorized access to payroll programs and processing. The report shows programs accessed during the past week, the individual(s) who accessed those programs, and the time(s) the programs have been accessed. Any inconsistency is investigated immediately.



- b. Controls numbers are determined and then compared to the actuals following transaction processing.
- c. Jim's highest paid employee processed through the system earns \$360,000 per year so any gross pay calculations in excess of \$30,000 per month are identified and written to a rejected transaction file for further investigation.
- d. An error/unusual report is generating through processing. The report is then reviewed, investigation, and the solutions documented.
- e. To ensure payroll is properly authorized by the appropriate personnel, any changes to employee master file information are evaluated.
- f. The output is examined for rationality prior to distribution to users.

**Required:**

Inquiry, observation, document examination, and re-performance are all used to test the operating effectiveness of controls. Provide an example of how Jim's audit team could use *each* of the testing methods to test operating effective.

Note: Not all methods are appropriate for all controls.

Imagine that you will be presenting to your audit partner on how you will conduct the audit of this section of controls. Prepare the following deliverable:

- a. A Word document with your analysis of the case and controls.

Your deliverable should be 3-4 pages in length. Please type your response in a Word document and follow APA format, according to CSU-Global Guide to Writing and APA. Include a title page and reference page. Use two (2) outside academic sources other than the textbook, course materials, or other information provided as part of the course materials.

**Mastery Exercise (10 points)**

**Module 5**

**Required Readings**

- Chapter 8: "Specialized Audit Tools: Attributes Sampling, Monetary Unit Sampling, and Data Analytics Tools" in *Auditing: A Risk-Based Approach*

**Opening Exercise (0 points)**

**Discussion (25 points)**

**Critical Thinking (60 points)**

**Option #1: Data Analytics**

Complete the case located in the below article, which relates to data analytics around purchasing card transactions:

Dow, K. E., Weidenmier Watson, M., & Shea, V. J. (2013). Understanding the links between audit risks and audit steps: The case of procurement cards. *Issues in Accounting Education*. 28(4): 913–927.

**Perform your analysis in Excel and your written portions in Microsoft Word.**

Your Excel worksheet and Word document deliverable should be 3-4 pages in length together. The Word document must follow APA format, according to CSU-Global Guide to Writing and APA. Include a title page and reference page. Use two (2) outside academic sources other than the textbook, course materials, or other information provided as part of the course materials.

### **Option #2: Business Intelligence, Automation, and Data Analytics**

Based on the movie *The Accountant*, perform an internet search for what they did with Artificial Intelligence.

#### **Required:**

Answer the following questions:

- a. What was he attempting to do by examining the financial numbers?
- b. Discuss what is business intelligence, automation, and data analytics? What are some ways auditors can use these to help in an audit?
- c. How could business intelligence, automation, and data analytics have been used to solve the problems he was trying to solve in this movie clip?

Your deliverable should be 3-4 pages in length. Please type your response in a Word document and follow APA format, according to CSU-Global Guide to Writing and APA. Include a title page and reference page. Use two (2) outside academic sources other than the textbook, course materials, or other information provided as part of the course materials.

#### **Mastery Exercise (10 points)**

## **Module 6**

### **Required Readings**

- Chapter 10: "Auditing Cash, Marketable Securities and Complex Financial Instruments" in *Auditing: A Risk-Based Approach*

### **Opening Exercise (0 points)**

### **Discussion (25 points)**

### **Critical Thinking (65 points)**

#### **Option #1: Internal Controls over Cash**

The following are deficiencies in internal controls over cash.

- a. When the cashier isn't available, Sally prepares both the deposit and opens the mail.
- b. The mail clerk may not prepare a remittance advice for the A/R department if a customer does not submit a one with a payment.
- c. Sometimes, the treasurer's department does not stop the supporting documents for cash disbursements.
- d. Ben handles both the customer correspondence concerning monthly statements and making the bank deposits.
- e. Sam handles incoming mail and also prepares bank reconciliations; however, the bank reconciliations are not done in a timely manner.

For each deficiency:

- Determine what applicable audit procedure(s) should be conducted to identify whether any material misstatements exist
- Explain why you think this procedure is best for this situation.

Consider each deficiency independently of the others. While each deficiency presents potential issues, identify two that stand out as the worse with your professional knowledge. Explain your rationale. Also, how would you implement a change to improve those deficiencies?

Your written response paper should be 3-4 pages in length. Please type your response in a Word document and follow APA format, according to CSU-Global Guide to Writing and APA. Include a title page and reference page. Use two (2) outside academic sources other than the textbook, course materials, or other information provided as part of the course materials.

### Option #2: Fraud in the Bank Reconciliation

Poor internal control over its cash transactions are becoming a problem for the Hogan Company. The following are facts about its cash position on October 31:

- The company's books showed a balance of \$19,004.62, which included undeposited receipts.
- A credit of \$200 on the bank statement is not included in the company's books.

The bank statement's balance was \$15,650.

- Outstanding checks were:

Check Number	Amount
No. 255 for	\$126.25
No. 289 for	\$140.00
No. 292 for	\$263.25
No. 8511 for	\$180.71
No. 8632 for	\$216.80
No. 8719 for	\$135.28

The only deposit was for \$3,797.41 on November 7. The cashier personally handles all incoming cash and bank deposits. He is responsible for reconciling the monthly bank statement as well. The November 30 reconciliation:

Balance per books, October 31: \$19,004.62

Add: Outstanding Checks

Check Number	Amount
8622	\$190.23
8623	\$176.80
8632	\$ 75.28

Total                    \$19,446.93

<b>Balances</b>	<b>Amount</b>
Less Undeposited Receipts	\$ 3,797.41
Balance per Bank, October 31	\$ 15,649.52
Deduct Unrecorded credit	\$ 200.00
True Cash, October 31	\$15,449.52

**Requirements:**

You're suspicious that the cashier may have pocketed some money and suspect that some of the un-deposited receipts of \$3,797.41 may have been taken. Create a schedule presenting your estimate of the loss.

- How did the cashier endeavor to conceal the robbery?
- Based on the scenario alone, name two specific components of internal control that were seemingly missing.
- If the cashier's September 30 reconciliation is known to be accurate and you start your audit on November 10, what specific substantive audit procedures would help you detect the missing money?

Your written response paper should be 3-4 pages in length. Please type your response in a Word document and follow APA format, according to CSU-Global Guide to Writing and APA. Include a title page and reference page. Use two (2) outside academic sources other than the textbook, course materials, or other information provided as part of the course materials.

**Mastery Exercise (10 points)**

**Module 7**

**Required Readings**

- Chapter 11: "Auditing Inventory, Goods and Services, and Accounts Payable: The Acquisition and Payment Cycle" in *Auditing: A Risk-Based Approach*

**Opening Exercise (0 points)**

**Discussion (25 points)**

**Live Classroom (0 points)**

**Mastery Exercise (10 points)**

## Module 8

### Required Readings

- Chapter 14: “Completing a Quality Audit” in *Auditing: A Risk-Based Approach*
- Chapter 15: “Audit Reports for Financial Statement Audits” in *Auditing: A Risk-Based Approach*

### Opening Exercise (0 points)

### Discussion (25 points)

### Mastery Exercise (10 points)

### Portfolio Project (325 points)

#### Option #1: Data Analytics and Excel

Reference the Excel file containing financial information from footnote disclosures and substantive analytical procedures using data analytics from your instructor.

PharmaCorp will be used **as the main analytical procedure tasks** you will want to focus on for this assignment. The other companies, Novartell and AstraZoro, will be used as industry comparisons.

The opportunity exists in this case to perform planning and substantive analytical procedures for accounts in the revenue cycle. You may assume that the 2015 financial information is unaudited, but the information from 2014 has been audited. Consider the following trends and characteristics of the pharmaceutical industry and for PharmaCorp in particular as you work on this case:

- Following many years of dominant financial performance by companies in the United States, Europe and Canada, increased competition is arising from organizations in emerging economies such as Brazil, India, and China.
- Significant uncertainty exists in the industry due to regulation covering health-care and government reimbursements related to certain procedures and prescribed pharmaceuticals.
- Policy makers in the industry and governments increasingly:
  - Mandate necessary prescripts for patients
  - Focus on prevention instead of treatment regimes, thereby leading to changes in demand for some products
- Anticipated growth in the industry is expected to be 5% to 7% in 2016 compared with 4% to 5% in the prior year as stated by leading industry analysts.
- Pharmacorp started and executed a significant cost reduction initiative aimed at improving efficiency, reducing research and development costs, and eliminating corporate overhead in 2014.
- PharmaCorp’s credit policies has remained the same over the past several years. Their credit policies are considered stringent in their industry, and they have been criticized on occasion for these policies in relation to their competitors.
- Two of the companies most popular pharmaceuticals, Sistosis and Vigarvox, are no longer patented as of the last quarter of 2015 and are now facing competition from generic alternatives.

#### Required:

#### Part I: Planning Analytical Procedures

1. Step 1: Identify Proper Analytical Procedures. The senior auditor suggests you should use these ratios (on the financial statement level) for planning the analytical procedures as part of the revenue cycle at the company:
  - a. Gross margin:  $(\text{revenues} - \text{cost of sales}) / \text{revenues}$
  - b. Turnover of receivables:  $(\text{revenues} / \text{average accounts receivable})$ ; use the ending accounts receivable
  - c. Receivables as a percentage of current assets:  $(\text{accounts receivable} / \text{total current assets})$
  - d. Receivables as a percentage of total assets:  $(\text{accounts receivable} / \text{total assets})$
  - e. Allowance for uncollectible accounts as a percentage of accounts receivable:  $(\text{allowance} / \text{accounts receivable})$
  - f. Identify other relationships or trends that are relevant as part of the planning analytics. Discuss your reasons for your choices.
2. Step 2: Evaluate the Data Reliability When Developing Expectations. The data you will use to develop expectations in the revenue cycle has been deemed reliable by the audit staff.
  - a. Discuss the likely factors the audit team will consider when making this determination.
3. Step 3: Develop expectations for accounts in the revenue cycle and for the ratios from Step # 1 that you deem as relevant. Since this is a planning analytical procedure, the expectations are not set at a high a high level of precision. Indicate if you expect a ratio to rise, fall, or remain the same, and explain the level of any anticipated rises or falls, or the range of the ratio. Pharma Corp's financial information is in the first tab of the Excel worksheet, while the information for Novartell and AstraZoro is available in the last two tabs of the file.
  - a. Consider both historical trends of Pharmcorp and the industry on the whole.
4. Step 4 and Step 5: Define and Identify Substantial Unanticipated Variances. Refer to the text for guidance on materiality.
  - a. Apply those guidelines to Step 4 of planning the analytical procedures as part of the revenue cycle for Pharmacorp. Define the meaning of a significant difference. Discuss your reasons for these choices. Discuss the qualitative materiality considerations in relation to this case.
  - b. Once you have determined the levels of difference you would consider noteworthy, calculate the Step 1 ratios (and any additional trend or ration analysis you deemed necessary), based on Pharmacorp's financial statement figures. Identify the ratios where you expect a significant difference.
5. Step 6 and Step 7: Investigate Substantial Unanticipated Variances and Ensure Appropriate Documentation.
  - a. Discuss the accounts or relationships you feel should be investigated further using substantive audit procedures. Discuss your reasons for these choices.
  - b. Describe the information that should be a part of the auditor's report or files.

## Part II: Substantive Analytical Procedures

1. You will see three tabs in the Excel file that should be reviewed: the Pharmacorp Segment Information, Pharmacorp's Geographic Information, and Pharmacorp's Other Revenue Information. These tabs display excerpts from Pharma Corp's footnote disclosures regarding segment, geographic, and other revenue information. Examine these disclosures and discuss the operating segments and geographic regions where the company does business.
2. Which operating segments generate the most revenue for the company and may be considered the most important? Which regions are the most important to the organization from geographic standpoint? List the three most important products manufactured by Pharmacorp? Discuss any trends you notice in relation to revenue generation for each of these different categories.

3. Explain the different types of ratio analysis that could be conducted in substantive analytical procedures using the data from the segment, geographic, and other revenue information. An example would be the R&D expenses as a percentage of revenues. How would these substantive analytics be different from the planning analytics? Discuss the trends and relationships that are relevant, and what are the implications in relation to further substantive testing?

Your written response paper should be 8-10 pages in length. It should be completed in Word and Excel. The Word portions should follow the APA format, according to CSU-Global Guide to Writing and APA Requirements. Include a title page and reference page. Use four (4) outside academic sources other than the textbook, course materials, or other information provided as part of the course materials.

### **Option #2: Data Analytics Using Tableau**

Refer to Tableau. If you do not already have a login, please register.

Your instructor will provide you with an Excel spreadsheet with the data for the ABC Company to use in this case.

#### **Required:**

1. Sort the file from largest to smallest Sales revenue. Determine a lower bound for the upper stratum. Defend your choice.
2. Assume that the ABC Company's FYE is 12/31/12. Check for appropriate sales cutoff. Identify any potential errors in sales revenue.
3. Use Tableau to determine the market segment of sales by product category and consumer market region. What category of product has the highest sales volume? What category has the lowest sales volume? What are the top two regions in the world for sales volume of consumer office supplies? Which market region is an emerging market for Superstore Sales?
4. What month is the highest in terms of sales value? What is the year with the highest sales so far for the ABC Company?
5. Use the "Show Me" feature to determine which category of furniture sales yields the lowest profit, regardless of geographic location.
6. Learn about how to create a forecast in Tableau using the following link (and associated webinar): [Forecasting with Tableau](#). Assume that you wish to develop an expectation to compare likely sales levels by month across the three product categories, that is, furniture, office, and technology. What is your forecast of sales for FYE 2013 for each of these categories? How would you use these forecasts as compared to actual FYE 2013 amounts as asserted by management?

Your written response paper should be 8-10 pages in length. Type your paper in a Word document and follow APA format, according to CSU-Global Guide to Writing and APA Requirements. Include a title page and reference page. Use four (4) outside academic sources other than the textbook, course materials, or other information provided as part of the course materials.

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## COURSE POLICIES

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Grading Scale	
A	95.0 – 100
A-	90.0 – 94.9
B+	86.7 – 89.9
B	83.3 – 86.6
B-	80.0 – 83.2
C+	75.0 – 79.9
C	70.0 – 74.9
D	60.0 – 69.9
F	59.9 or below

### Course Grading

20% Discussion Participation  
0% Opening Exercises  
0% Live Classroom  
8% Mastery Exercises  
37% Critical Thinking Assignments  
35% Final Portfolio Project

SAMPLE



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## IN-CLASSROOM POLICIES

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For information on late work and incomplete grade policies, please refer to our [In-Classroom Student Policies and Guidelines](#) or the Academic Catalog for comprehensive documentation of CSU-Global institutional policies.

### **Academic Integrity**

Students must assume responsibility for maintaining honesty in all work submitted for credit and in any other work designated by the instructor of the course. Academic dishonesty includes cheating, fabrication, facilitating academic dishonesty, plagiarism, reusing /repurposing your own work (see CSU-Global Guide to Writing & APA for percentage of repurposed work that can be used in an assignment), unauthorized possession of academic materials, and unauthorized collaboration. The CSU-Global Library provides information on how students can avoid plagiarism by understanding what it is and how to use the Library and internet resources.

### **Citing Sources with APA Style**

All students are expected to follow the CSU-Global Guide to Writing & APA when citing in APA (based on the most recent APA style manual) for all assignments. A link to this guide should also be provided within most assignment descriptions in your course.

### **Disability Services Statement**

CSU-Global is committed to providing reasonable accommodations for all persons with disabilities. Any student with a documented disability requesting academic accommodations should contact the Disability Resource Coordinator at 720-279-0650 and/or email [ada@CSUGlobal.edu](mailto:ada@CSUGlobal.edu) for additional information to coordinate reasonable accommodations for students with documented disabilities.

### **Netiquette**

Respect the diversity of opinions among the instructor and classmates and engage with them in a courteous, respectful, and professional manner. All posts and classroom communication must be conducted in accordance with the student code of conduct. Think before you push the Send button. Did you say just what you meant? How will the person on the other end read the words?

Maintain an environment free of harassment, stalking, threats, abuse, insults, or humiliation toward the instructor and classmates. This includes, but is not limited to, demeaning written or oral comments of an ethnic, religious, age, disability, sexist (or sexual orientation), or racist nature; and the unwanted sexual advances or intimidations by email, or on discussion boards and other postings within or connected to the online classroom. If you have concerns about something that has been said, please let your instructor know.