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## 30161 – AUDITING: PRINCIPLES AND METHODS

Accounting Department

BOCCONI UNIVERSITY

**Credit Points: 6**

**Course Director: Prof. Antonio Marra**

Class Number	Class Director	Instructors	Class Day and Timetable	Room
	Prof. Antonio Marra	Prof. Antonio Marra	See below	33
	Prof. Antonio Marra	Prof. Chiara Carotenuto	See below	33

The class timetable (see below) or the room listed above may change.

Students are required to check any eventual change on Bocconi website: <http://www.unibocconi.it>

### COURSE DESCRIPTION

The course begins with an examination of the factors affecting the demand for assurance, including the concepts of independence and objectivity which are fundamental to all audits. We then introduce the various types of the audit reports highlighting the nature of misstatements which the auditor can include in his report with emphasis upon the scientific interpretation of the concept of materiality. We then introduce the business risk audit which is the focus of new auditing standards and had been adopted (in various guises) by the so-called “Final Four” international accounting firms over the past few years. This model lends itself to in depth examination of such key issues as knowledge of client’s business, analyzing business processes and management controls and application of analytical procedures. We then introduce the audit risk model and consider the quality of different types of audit evidence. We develop a plan for evidence collection using the concept of the audit risk model in various audit areas (the revenue cycle, etc.) as an application of the general principles learned early in the course.

Particular relevance is given to analysis and discussion of typical audit problems and case studies, in order to develop students' skills in identifying critical financial areas and projecting risk-based audit procedures.

### LEARNING OBJECTIVES

The independent external auditor’s first aim is to increase the reliability of financial statements presented by the management of a firm to its most important users, such as investors (actual and/or potential), creditors and regulators. The auditor’s instrument to reach its goal is the drafting of a report in which he indicates his opinion about the credibility of these financial statements.

Another different type of audit analyse the efficiency and effectiveness of managerial decisions and actions.

The main objective of this course is to develop participants’ skills in basic audit methodology and to provide students with the basic tools to analyse and interpret audit work and report.

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The course examines the role and function of corporate audit and its foreseeable evolution, the auditor professional ethic code and auditing techniques and methodologies used to verify the reliability of annual financial statement of commercial and industrial enterprises.

At the end of the course students will be able to:

- understand the factors that affect demand for auditing and assurance service.
- understand and apply the principles underlying the audit and assurance services
- understand the fundamental importance of independence and objectivity to all assurance services
- apply strategic management knowledge to gain an understanding of a client's business risks
- identify and understand the role of management controls overall and in an audit
- apply risk knowledge to auditing a business processes and its management controls
- understand the nature of internal controls over financial reporting including testing decisions
- effectively employ analysis and enquiry as tools to collect audit evidence.

## **COURSE MATERIAL**

For each session, the teaching material will be handed-out by the instructor through the web-learning. Such material includes slides, case-studies and exercises.

The reference book is:

ARENS A.-ELDER R.-BEASLEY M., *Auditing and Assurance Services, an integrated approach*, 15<sup>th</sup> Edition, Pearson Education, Edinburgh Gate, 2012.

For the selected chapters, see below.

## **STUDENTS' RESPONSIBILITIES**

### **a) In-class activities**

- The course emphasizes the case discussion method, with intense students' involvement. Therefore, feedback between students and instructors will be strongly encouraged throughout the course.

### **b) Out-of-class activities**

- Individual preparation of the course material, including notes, cases and exercises available on the course elearning website;

### **c) Students belonging to previous academic years**

Students belonging to previous academic years who still have to take the exam must study the current academic year program and books. Thus, they have to ask the Secretary's Office of the Department (see below for the details) to get the access to the current course site to update and integrate their own materials.

Students who still have to take the exam are mandatorily assigned to *Class 98*.

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NB – IT IS FORBIDDEN TO ALL STUDENTS (BOTH CURRENT AND PREVIOUS YEAR STUDENTS) TO ATTEND THE COURSE IN A CLASS THAT IS DIFFERENT FROM THE ONE THEY HAVE BEEN ASSIGNED TO.

## EXAM AND GRADING METHOD

The evaluation will be based on:

For Attending students:

- Written examination 85%
- Group assignment 10%
- Class participation 5%

**N.B.** All (attending and NON attending) Students can choose between:

- sitting for TWO mid-term exams during the course, only if they are awarded a sufficient grade; **or**
- sitting for a final comprehensive exam on the whole program of the course.

Students can “seat” for the second mid-term exam **only if** the grade on the first mid-term is 18 out of 30 or greater. Those who failed the first mid-term exam must take the comprehensive exam and the same process applies to the students passing the first mid-term exam but failing the second one.

The students who passed the first mid-term exam can choose to take the comprehensive exam nonetheless and, in this case, their first mid-term exam result is no longer taken into consideration.

The enrolling for the mid-term and comprehensive exams is compulsory (through “Punto Blu”). No exceptions will be considered for whatever reason.

A final mark of “30 cum laude” will be assigned to students who reach a final grade equal to 31.

*N.B. NON Attending students might be required (in their mid-terms or comprehensive examinations) to answer to additional questions to substitute group assignment (10%) and class participation (5%) required for attending students. More details about potential readings and content will be provided later on during the semester.*

NOTE: For any further question about the content handled in class or concerning the rules and the organization of the course, please contact: Prof. Antonio Marra.

## TEACHERS’ OFFICE HOURS

Office hours are available on the Bocconi website  
Office hours may change: please check the website.

## HONOR CODE

Università Bocconi conceives education as an ongoing process that stretches across a person’s entire professional life. The University hopes that the entire Bocconi community will respect the values of fairness and correctness associated with it, values which inspire and guide the conduct of all members as they pursue common objectives and a shared mission. The Università Bocconi Honor code is published at <http://www.unibocconi.eu/honorcode>. We encourage all students to read it.

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## ACCOMMODATIONS FOR STUDENTS WITH SPECIAL NEEDS

Università Bocconi enables students to follow their course of study and to test their learning through examination arrangements that take under consideration the different kinds of disability. Services for students with special needs are available at [www.unibocconi.it](http://www.unibocconi.it) (**Home > Services > ISU Bocconi > Other Services > Services for Students with Special Needs**). Please feel free to contact the instructors to receive assistance.

## OTHER USEFUL INFORMATION

*Professor Antonio Marra  
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E-mail: [antonio.marra@unibocconi.it](mailto:antonio.marra@unibocconi.it)*

*Professor Chiara Carotenuto  
Via Roentgen 1 – V floor – Room TBD  
E-mail: [chiara.carotenuto@unibocconi.it](mailto:chiara.carotenuto@unibocconi.it)*

*Secretary's Office of the Accounting Department: Mrs. Ivana Tagliabue  
Via Roentgen 1 – V floor – Room C3 08  
Phone number 02 58363629  
E-mail: [ivana.tagliabue@unibocconi.it](mailto:ivana.tagliabue@unibocconi.it)*

## COURSE CONTENTS AND SCHEDULE<sup>1</sup>

Dates, timetable and Teachers are indicated, with reference to each specific class, on the website <http://www.unibocconi.it>

Ss. No.	Day	Time	Prof.	Topics	References (*)
<b>The profession of Auditing</b>					
1	Mon 08/09/2014	8.45 – 10.15	AM (1)	Introduction to the Assurance Service Market and the Audit Standards' Setting Process.	Hand-outs A&AS, Chap. 1 A&AS, Chap. 2
2	Thu 11/09/2014	16.15 – 17.45	CC (1)	Audit Reports.	Hand-outs A&AS, Chap. 3 (82-88 suggested, not mandatory)
3	Mon 15/09/2014	8.45 – 10.15	CC (2)	Auditors' and managements' responsibilities, audit objectives and general concepts of evidence accumulation.	Hand-outs A&AS, Chap. 6 pp. 162-165+169-185 Chap. 7 pp. 194-209
<b>The process of Auditing</b>					
4	Thu 18/09/2014	16.15 – 17.45	CC (3)	Audit Planning; Materiality and the audit risk model	Hand-outs A&AS, Chap. 8 A&AS, Chap. 9
5	Mon 22/09/2014	8.45 – 10.15	AM (2)	Considering the internal control, Considering the risk of fraud	Hand-outs A&AS, Chap. 10 pp. 308-311+321-333 A&AS, Chap. 11
6	Thu 25/09/2014	16.15 – 17.45	AM (3)	Developing the overall audit plan and audit program	Hand-outs A&AS, Chap. 13 (no Impact of Info Tech on audit testing and Evidence Mix)

<sup>1</sup>The schedule may be subject to revision. If time constraints require, appropriate adjustments will be made and will be announced in class. Should you miss class for any reason, make sure you keep track of any announcement regarding course materials, assignments and clarifications.

\* A&AS = ARENS A.-ELDER R.-BEASLEY M., *Auditing and Assurance Services, an integrated approach*, 15<sup>th</sup> Edition, Pearson Education, Edinburgh Gate, 2012.

7	Mon 29/09/2014	8.45 – 10.15	AM (4)	Developing the overall audit plan and audit program	See above
8	Thu 02/10/2014	16.15 – 17.45	CC (4)	<b>General review and exercises.</b>	Hand-outs
9	Mon 06/10/2014	8.45 – 10.15	AM (5)	Research on Audit around the world: where do we stand now.	Hand-outs
10	Thu 09/10/2014	16.15 – 17.45	AM (6)	Presenting and discussing a research paper. The Cost of Mandatory Auditor Rotation: Evidence from the Italian Experience.	Hand-outs
11	Mon 13/10/2014	8.45 – 10.15	CC (5)	Audit of the sale and collection cycle	Hand-outs A&AS, Chap. 14,15 and 16
12	Thu 16/10/2014	16.15 – 17.45	CC (6)	<b><i>Sale and collection cycle: Focus on the “Hotel industry”</i></b>	Hand-outs A&AS, Chap. 14,15 and 16
<b>Winter Break!</b>					
13	Thu 30/10/2014	16.15 – 17.45	CC (7)	Audit of the acquisitions and payment cycle	Hand-outs A&AS, Chap. 17,18 and 19
14	Mon 03/11/2014	8.45 – 10.15	CC (8)	<b><i>The acquisitions and payment cycle: Auditing Intangibles – Football players</i></b>	Hand-outs A&AS, Chap. 17,18 and 19
15	Thu 06/11/2014	16.15 – 17.45	CC (9)	<b>General review and exercises.</b>	Hand-outs A&AS, Chap. 19
16	Mon 10/11/2014	8.45 – 10.15	CC (10)	Audit of the inventory and warehousing cycle	Hand-outs A&AS, Chap. 20
17	Thu 13/11/2014	16.15 – 17.45	AM (7)	<b><i>Inventory and warehousing: focus on the Fashion Industry</i></b>	Hand-outs A&AS, Chap. 20
18	Mon 17/11/2014	8.45 – 10.15	AM (8)	Group assignments presentations	
19	Thu 20/11/2014	16.15 – 17.45	AM (9)	Group assignments presentations	
20	Mon 24/11/2014	8.45 – 10.15	CC (11)	<b><i>Accounting, Auditing and Frauds Guest Speaker.</i></b>	Hand-outs
<b>Completing the Audit</b>					
21	Thu 27/11/2014	16.15 – 17.45	AM (10)	Audit completion	Hand-outs A&AS, Chap. 24

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22	Mon 01/12/2014	8.45 – 10.15	AM (11)	<b><i>Companies Compliance: an overview on regulation at Italian and international level</i></b> <b><i>Guest Speaker</i></b>	Hand-outs
23	Thu 04/12/2014	16.15 – 17.45	CC (12)	<b>General review and exercises.</b>	Hand-outs
24	Thu 04/12/2014	TBD(**)	AM (12)	<b>General review and exercises.</b>	Hand-outs

**\*\* Please notice last class (Session 24) will be handed between December 2<sup>nd</sup> and 4<sup>th</sup>. Details will follow.**

In the Prof. section, AM refers to Antonio Marra, CC refers to Chiara Carotenuto and GS refers to guest speaker.