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**Preface**

*Auditing Cases: An Interactive Learning Approach* provides exposure to real-world audit techniques and hands-on learning for students in both undergraduate and graduate auditing courses. This Seventh Edition continues our tradition of providing a rich learning experience for students that challenges them to apply knowledge learned in the classroom and from traditional auditing textbooks so they can develop skills to complete tasks they will be asked to do once they enter the accounting and auditing profession.

**NEW CASES TO THE SEVENTH EDITION**

The Seventh Edition continues to feature a variety of cases that address different aspects of the audit. Some are based on real companies, while others are disguised as “hypothetical companies” in order to provide a “surprise element” once they are completed. Additional cases include examples of client system documentation and audit workpapers that students prepare and evaluate as if they are on a current audit team.

**Case 3.6**

**Wells Fargo**

*Assessing the Impact of Ethical Culture*

This case features the alleged inappropriate sales culture at Wells Fargo Bank that ultimately led to the CEO’s 2016 testimony in front of the U.S. Senate Banking Committee and his subsequent resignation. The bank’s audit firm was challenged to defend its work by four U.S. Senators, one of whom included Bernie Sanders, a recent candidate for U.S. President.

**Case 4.8**

**Koss, Inc.**

*The Sounds of a High-Fidelity Fraud*

This case gives students a “bird’s-eye” view of the 9th-largest embezzlement fraud in U.S. history, which took place at the Koss Corporation, headquartered in Wisconsin. The case vividly illustrates what can happen when internal control over financial reporting (ICFR) is lax at a public company. The case will be particularly interesting for students because much of the story of this massive defalcation fraud is introduced through the words of the company’s CEO and the individual who stole $34 million from the company, adapted from deposition statements. The case brings to life the importance of effective ICFR, with an emphasis on the Control Environment, and introduces students to the role that accountants can play as expert witnesses in court cases.

**Case 5.8**

**Oilfields-R-Us, Inc.**

*Evaluation of Management Review Controls*

This case introduces students to management review controls (MRCs), an increasingly important topic in practice for both management and auditors. In a MRC, members of management review key information and evaluate reasonableness by comparing it to expected value, such as budget-to-actual comparisons and review of accounting estimates. This case helps students appreciate the importance of the effective design and execution of MRCs, and it highlights some of the challenges of evaluating their effectiveness in audits of internal control over financial reporting.

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Town and Country Hardware
Evaluation of Tests of Controls with Automated Component for the Expenditure Cycle (Purchases)

This case introduces students to internal controls with an automated component that are an increasingly important topic in the practice for both management and auditors. This case helps students appreciate the challenges of evaluating the effectiveness of internal controls over financial reporting with an automated component.

ADDITIONAL NEW FEATURES OF THE SEVENTH EDITION

Reflects Recent Auditing Standards
This edition includes updates that reflect new auditing standards issued by the AICPA's Auditing Standards Board (up through SAS No. 132, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern) and the PCAOB's Auditing Standards (up through AS 3101, The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion). When relevant, questions expose students to new guidance contained in recently issued auditing standards.

Updated and Re-ordered Materials and Questions
Many of the case questions have been restructured to change the nature of the topics addressed and to expose students to different issues from those examined in prior editions. Many cases also have reordered questions. Dates in hypothetical cases have been set in calendar year 2018 with audit procedures performed on the 2017 fiscal year information and/or interim procedures performed on the 2018 fiscal year information. When appropriate, we have changed underlying data in some of the hypothetical cases so that the cases differ from prior editions. All of these changes reduce the potential benefit of students seeking our solutions from prior editions of the casebook. Further, students who inappropriately access and use solutions to prior editions are more likely to be detected by the instructor.

SOLVING TEACHING AND LEARNING CHALLENGES

Auditing educators continue to look for opportunities to increase their emphasis on the development of students' professional judgment, critical thinking, communication, and interpersonal relationships skills. Development of these skills requires a shift from passive instruction to active involvement of students in the learning process. Unfortunately, current course materials provided by many publishers are not readily adaptable to this kind of active learning environment, or they do not provide materials that address each major part of the audit process. The purpose of this casebook is to give students hands-on exposure to realistic auditing situations focusing specifically on each aspect of the audit process.

Over 50 Cases Spanning the Audit Processes
This casebook contains a collection of 50 auditing cases plus a separate learning module about professional judgment that allows the instructor to focus and deepen students' understanding in each of the major activities performed during the conduct of an audit. These cases expose students to aspects of the audit spanning from client acceptance to issuance of an audit report, with a particular focus on how professional judgment is applied throughout the audit. Each case is primarily assigned to one of 12 identified aspects of an audit; however, a number of cases address more than one topic. As a result, cases are cross-referenced in the Table of Contents so that instructors can easily pinpoint how a particular case might be useful to address different audit topics. The following Table of Contents Overview provides the number of cases for each of the 12 topics.
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*In addition to the 50 cases included in the book, three additional cases from prior editions can be accessed via the casebook website (www.pearsonhighered.com/Beasley). Thus, there are 53 different case options available for use!

**Module on Professional Judgment**

The casebook includes a Learning Module on Professional Judgment that exposes students to a professional judgment framework and outlines a framework of good judgment as well as a number of judgment tendencies and traps that can introduce bias into the judgment process. Because professional judgments are required throughout the entire audit process, from client acceptance to report issuance, we include an Introduction to Professional Judgment as an upfront learning module rather than as an individual case. We encourage students to complete this learning module early in their auditing course to expose them to the fundamentals of professional judgment, which they can use as they complete the required professional judgment questions in many of the cases to this edition. The professional judgment questions are separately highlighted in gray-shaded sections of the Requirements section.

Reprinted from the KPMG Professional Judgment Framework: Elevating Professional Judgment in Auditing with permission from KPMG LLP © 2013 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved. For additional news and information, please access KPMG’s global Web site on the Internet at www.kpmguniversityconnection.com.
In-Class and Out-of-Class Assignments
While all of the cases can be assigned for completion as an outside-of-class assignment, several of the cases are designed so that they can be easily used as an in-class learning opportunity. The Instructor’s Resource Manual provides several ideas of how many of the cases can be easily incorporated as an in-class activity, which should be especially helpful for instructors who have “flipped” their classes.

Real-World Application
Each case presents a number of audit related issues and decisions that help students apply their audit knowledge and skills to real-world scenarios. A number of the cases are based on actual situations involving real companies. Others are hypothetical cases that disguise the innocent.

DEVELOPING SKILLS FOR THE PROFESSION
For students to succeed in a rapidly changing accounting and auditing profession, they need to be skilled at thinking critically and analytically, while remaining open and flexible to life-long learning and development. Auditing Cases: An Interactive Learning Approach provides an effective platform to help students build a strong toolkit of skills that will increase their career success. Here are some of the ways this casebook helps strengthen their abilities for careers in the accounting and auditing profession.

Critical Thinking
All of the cases present realistic issues and challenges that auditors face every day in the engagements they perform. Because of that, each case presents scenarios that require students to think critically about identifying the issue at hand and then determining how to respond in a way that would be appropriate in an audit engagement setting. Many of the cases present dilemmas that highlight the realities of the complexities students will face when in their professional careers. Completion of these cases will help students develop and mature their critical thinking and analytical skills.

Hands-on Application
All cases engage students in applying their knowledge and skills in a hands-on learning environment. For some cases, students review client generated documentation, complete actual audit program procedures, and prepare and evaluate audit working papers. Other cases require students to conduct Internet based research similar to what might be required in an audit to locate guidance in professional standards or to access relevant financial statement filings with the U.S. Securities and Exchange Commission.

Communication Skills
A number of the cases require students to prepare written responses in memorandum or report format. The Instructor’s Resource Manual contains a number of different ideas for structuring assignments to have students develop their written communication skills.

Team-Based and Individual Assignments
All of the cases are designed so that students can complete them either in teams or individually. The Instructor’s Resource Manual contains a number of different suggestions for assigning the cases as group or individual assignments.
INSTRUCTOR TEACHING RESOURCES

The accompanying Instructor Resource Manual clearly illustrates the different instructional approaches available for each case (e.g., examples of cooperative/active learning activities and/or out-of-class individual or group assignments) and efficiently prepares the instructor for leading interactive discussions. The Instructor Resource Manual contains rich solutions to help instructors pinpoint the relevant issues that are the focus of each of the cases. To access this manual, log on to:

www.pearsonhighered.com/Beasley

We are pleased to provide this updated Seventh Edition and hope that the professional skills of your students will be enhanced through completion of cases contained within this edition.

ACKNOWLEDGEMENTS

The authors appreciate the assistance of Brant Christensen and Jacob Smith in assembling materials for some of the cases. We also want to express our sincere gratitude to Jonathan Liljegren for his incredible work in the design and assembly of the entire casebook and instructor resources. We are grateful for his professionalism and eye for detail. Finally, we thank our families who are always supportive of our efforts and who allow us to pursue these kinds of creative opportunities.

ABOUT THE AUTHORS

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