

Discussion forum – A case study evaluating ethical and legal approaches in auditing

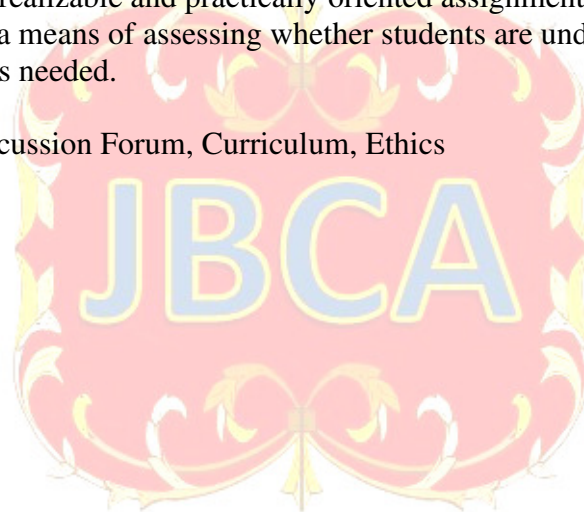
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ABSTRACT

This case study uses the discussion forum as a pedagogical tool to teach ethics and legal approaches in an auditing class. It explores and illuminates opportunities and best practices in responding to a new learning environment, whereby technology is incorporated in curriculums. The paper concludes that the discussion forum can be used to dismantle complex or large assignments into smaller realizable and practically oriented assignments. These assignments can be used by instructors as a means of assessing whether students are understanding the concepts and providing feedback as needed.

Keywords: Auditing, Discussion Forum, Curriculum, Ethics



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INTRODUCTION

Many stakeholders of tertiary education have differing views about the changing educational environment. Online learning versus traditional learning has its advantages and disadvantages. Both modalities have advocates and opposers in varying, sometimes subtle views regarding the difference between asynchronous modality classes and traditional on-campus classes. One important area that appears to be of mutual concern regarding online and traditional learning environment is the interaction between instructors and learners. This becomes more pronounced with very difficult courses that require active interaction, guidance, and feedback. The Discussion Forum is an important tool used in asynchronous classes for interactions between instructors and learners. While the discussion forum can be easily used and applied to many college courses, faculty struggle with the discussion forum as a tool to teach ethics and legal approaches in auditing classes. Ethical and legal concepts can be very principle and conceptually oriented, hence rendering a less than adequate response to learning objectives. This case study explores and illuminates opportunities of using the discussion forum when teaching ethics and legal approaches in an auditing class.

Adherence to professional ethics and the requirements to be legally compliant are needed now more than ever, because of the changing ecosystems, and the need for companies to change or alter their business models/processes to be competitive and sustainable. Accountants are expected to uphold and maintain integrity and objectivity when carrying out their professional responsibilities. The learning objectives of this case cover these important principles. Upon completion of this case, students should be able to exhibit the highest level of professional objectivity in collecting, evaluating, and communicating information examined. Students will learn the importance of their roles as accountants in the assurance process, the normal function of business processes, and accuracy and reliability of financial information.

The advent of emerging technology, and recently the COVID pandemic, offer many opportunities for research on new pedagogical tools and skills necessary to teach college students in an especially changing environment. Family, social, and work demands have made asynchronous classes more attractive to learners who want tertiary education. The discussion forum is a tool that is used extensively in various asynchronous classes. Discussion forums are used sometimes with little strategy and effort to improve the learners' experiences. This case study addresses this issue. This case study includes a focused discussion on best practices that may be used to improve learner's experiences in the discussion forum.

Case

Jameil, CPA, has been the auditor for Farmland Co. over the last 3 years. Farmland Co. is a multinational company that sells food products produced in the Caribbean. The food products are thereafter exported and sold in many countries, including the USA. Although the food products are produced in the Caribbean, the majority of Farmland Co.'s revenue is generated in the USA. Consequently, the corporate office was built in Florida to facilitate Farmland Co.'s business model. Laws in Caribbean countries are not different from most developing countries, where the challenges of enforcement to laws such as white-collar criminal laws require resources by the government. Impecunious budget appropriations and limited tax revenue exacerbate enforcement of the laws.

Farmland Co. owned two SUVs, both vehicles were driven by two of the company's executives, as this is common in the Caribbean. The SUVs were fully depreciated. The

executives thought it would be a good gesture to sell the vehicles to lower-tiered employees. They felt that this would be a good motivational strategy. The fully depreciated vehicles were sold to two employees for \$16,000; 15% below market value. The cash receipt from the sales of both vehicles was not reported as income, but was included in the company's cash and equity accounts (Dr. cash \$16,000 and Cr. Owners' Equity \$16,000). Jameil, CPA, is concerned that the transaction is not reported appropriately; and possibly fraudulently. Farmland management and board of directors believe that the transaction was immaterial to the overall presentation of the financial statements. They felt that the auditor was making too much of an issue for a transaction that would not materially alter the presentation of the company's business activities. Management felt that there should be no action on their part to prevent such action in the future as this is a very infrequent transaction. Farmland's legal counsel was asked for their input. They postulated that the probability of such a transaction being investigated and determined to be illegal is remote, and even if discovered would result in a fine that is immaterial to the consolidated financial statements.

Although the CFO supported the position taken by Farmland that the transaction was inconsequential, he suddenly resigned his position a week before the audit was completed. The Controller was quickly promoted to assume the CFO's position. Since the CFO was the principal individual Jameil, CPA worked with over the last 3 years, and more importantly, was the senior contact person up to the last phase of the audit, he was asked to sign the representation letter with the CEO. The CFO objected and stated that he is no longer working with Farmland and has no responsibility or obligation to sign off on the representation letter. He thereafter, said that his decision not to sign the representation letter should not be inferred that a problem exists with the company. The CEO, and the newly appointed Controller agreed to sign the representation letter. The Controller was hired in the last 8 months and was not directly involved in the audit. What would be the appropriate course of action/s be by Jameil, CPA if Farmland Co. was a publicly traded company and a private company?

TEACHING NOTES

Case Questions

- (a) Discuss the implications of the illicit act by Farmland Co. as an issuer and a non-issuer.
- (b) Discuss the ethical implications of the CPA firm auditing an issuer and a non-issuer.
- (c) State your opinion on the appropriate course of action.

Learning Objectives

- Identify ethical issues and provide justification for the decision taken.
- Identify legal issues and provide justification for the decision taken.
- Discuss the Application of AICPA Code of Professional Conduct rules.
- Explain the concepts of independence and objectivity and approaches to mitigate risks.
- Distinguish standards and rules for audits of public and private companies.

Intended course and audience

This case is designed to be used in the discussion forum of an asynchronous class. The discussion forum is designed for learners to answer short essays and analytical questions in their own words. This important tool is not only effective for asynchronous classes, it may also be included in remote, and traditional classes to provide and promote a clear understanding of the learning objectives. The discussion forum is used to present facts, including ideas that learners use to interact with each other. The blend of ideas includes practical experiences, concepts, and applications with relevant sources. This requires proper quotation and referencing. This case is ideal for auditing, forensic accounting, management and financial accounting, and capstone classes. Instructors should have expectations of what the scholarly requirements are. In essence, assessments should be considered holistically and based on the learning objectives. Grading criteria should be in place to assist the learners, with appropriate feedback. Points, merits, or credits may be added or subtracted based on substantive and scholarly criteria.

To teach this case effectively in the discussion forum, the instructor must develop an outline similar to a syllabus. The outline provides structure that enhances the learning process. It should include the discussion forum protocols, grading criteria, rubric, learning goals/objectives, assessment of discussion forum question/activities and summary of assessment.

Discussion Forum Protocols

Establishing discussion forum protocols adds value to learners' learning experiences in the online environment. Protocols should encourage scholarly, frank, and insightful dialogue or interactions between learners and learners, and instructor and learners. The discussion forum policy should encourage diversity of thoughts, opinions, and values, but in doing so, learners should be encouraged to be respectful of that diversity, and to desist from inappropriate posts; and or input. Comments in the discussion forum should be guided by common sense and basic etiquette. The following are good guidelines to follow:

- Learners must never post, transmit, or distribute content that is known to be illegal or offensive.
- Learners must avoid overtly harassing or embarrassing fellow learners. If the learner disagrees with another learner, the learner should respond to the subject of the discussion, not the person.
- Learners must not post, transmit, or distribute material that is harmful, abusive, racially, or ethnically offensive, sexist, vulgar, or otherwise inappropriate.
- Anonymous postings are prohibited.

- Due date/s and time for posts submissions.

Discussion Forum Grading Criteria

The grading criteria must be specific for what is required to ensure that learners are familiar and are aware of the discussion forum expectations. The following are good guides to use in the discussion forum:

- Grading criteria should include the number of substantive posts and or responses needed to meet the learning objectives for the week. This may include word requirements, source requirements, comprehensive, and or thorough response based on learning objectives and grading rubric.
- Frequency of posts and participation requirements must be clearly articulated. An example is the learner would have to post a minimum of 5 substantive posts over at least 3 different days to get full credit.
- Credit hour assignments should be included to help garner substantive responses. This may include the number of hours the learners should spend on research and posts in the discussion forum.
- Scholarly requirements should be included to support the learning process. An example is the requirement to cite sources using APA format, or minimum source requirement for a discussion question.

Academic Integrity in Discussion Forum

The discussion forum must provide an educational experience designed to develop professional competencies, including habits of personal and professional integrity. Learners are expected to act honestly in the discussion forum. The very real challenge of students using computer software technology (Artificial Intelligence & Internet) to assist them with their assignments, including discussion forum posts requires a commitment to maintain academic integrity. To maintain structure in the discussion forum, faculty may include an agreement or pledge of honesty regarding students' academic work. This is important because the discussion forum can be used for short research and or writing assignments. The objective is for students to develop the requisite skills to conduct research, and engage in scholarly writing which includes paraphrasing, and citing sources.

The discussion forum can be used as a teaching opportunity to address violation of academic integrity or plagiarism. It can be used to explain what constitutes proper citing and referencing techniques. Examples of properly sourced documents may be provided in the discussion forum to assist with the learning process. This could be helpful to learners when they embark on larger, and more complex research papers or assignments. The discussion forum may be used to help students paraphrase and answer conceptual questions in their own words.

General Response to Suspected Plagiarism in the Discussion Forum

Suspected plagiarism in the discussion forum should be addressed in a timely manner. A proper grade reflecting the infraction should be noted or included in the grade. Learners may be given an opportunity to rectify academic issues and resubmit. If there are prior infractions, escalation may be needed. This of course will be determined based on the college's academic integrity policy.

Rubric in Discussion Forum

To avoid misunderstanding, a rubric may be used for the discussion forum. Learners are aware of what is required to do well in the discussion forum. Below is an example of a discussion forum rubric for the case study above.

Discussion Forum Rubric				
Ethics				
Excellent	Good	Satisfactory	Less Than Satisfactory	Unsatisfactory
Identify ethical issues thoroughly and provide comprehensive justification of decision taken. Substantive supporting details were provided with relevant sources	Identify ethical issues and provide justification for the decision taken. Supporting details were provided with relevant sources	Identify ethical issues and provide justification for the decision taken. However, supporting details lack relevant sources	Ethical issue, justification and or relevant sources were lacking, or incomplete	Assignment was not completed. Assignment submitted but does not meet discussion forum criteria
Legal				
Identify legal issues thoroughly and provide comprehensive justification of decision taken. Substantive supporting details were provided with relevant sources	Identify legal issues and provide justification for the decision taken. Supporting details were provided with relevant sources	Identify legal issues and provide justification for the decision taken. However, supporting details lack relevant sources	Legal issue, justification and or relevant sources were lacking, or incomplete	Assignment was not completed. Assignment submitted but does not meet discussion forum criteria
Thesis				
Comprehensive and includes the essence of the discussion forum requirement	Clear and appropriate and meets the standard of the discussion forum requirement	Meets the standard of the discussion forum requirement	Insufficiently developed. Discussion forum objective not met	Discussion forum lacks objective and organizational structure
Format and Documentation of Sources				

Formatting of discussion post correct. Sources are relevant and cited properly	Formatting of discussion post correct, although minor errors exist. Sources are relevant and cited properly, although minor errors exist.	Formatting of discussion post meets standard, although errors exist. Sources are relevant and cited meet standard, although errors exist.	Formatting is incorrect. Sources are incorrect or inconsistent.	Unacceptable formatting and sources. Sources are not cited appropriately
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Responses to Questions in the Discussion Forum

(a) Learners should discuss the implication of the illicit act by Farmers Co. as an issuer and a non-issuer.

In responding to this question in the discussion forum, learners should be able to discuss the implication of the illicit act of Farmland as a public or private company. Learners are expected to use the FASB, GAAP, SAS & PCAOB Codifications to support their positions. Learners should use the codifications to respond to questions when they exist. If the codifications do not address the issue, the learners should evaluate ethical and risk assessment processes to reduce the risk to a tolerable level. Learners should be able to provide information that is useful regarding an auditor's response to discovering illegal acts. They are expected to assert in varying ways that while there are more stringent policies and laws for publicly traded companies, the approach for such an act by a private company would likely be similar in determining the effect of the acts on the client's financial statements; including the possibility of fines and loss of business. So, whether the company is private or public, the company's financial statements must clearly identify or disclose the material effects of the illegal act that was carried out. Failure to do this would render non-compliance with generally accepted accounting principles.

In accordance with auditing standards (AICPA AU-C 240; AICPA AU-C 250; PCAOB AS 2405; PCAOB AS 2401), the auditors are required to understand the legal and regulatory framework of the entity that is being audited. In addition, the auditors should perform specified audit procedures to determine noncompliance with laws that may have a material effect on the financial statements. The journal entry of debiting cash and crediting owners' equity could be considered an error, or financial statement fraud, because the gain would not be reported in the income statement. This could lead to tax evasion, which is illegal in most jurisdiction (26 U.S. Code § 7201). Management insistence on not making the correction, comports with noncompliance of laws and regulations. The noncompliance of not preparing an adjusting journal entry has a direct effect on the financial statements.

Learners must discuss the effect of the illegal act on the company's internal control over financial reporting. Whether the company is an issuer, or non-issuer, the auditor must evaluate whether the illegal act is a result of a material weakness in Farmland's internal control system. However, the need for auditors to express an opinion on the internal control over financial reporting for public companies would obviously put the auditors in a position to express an unqualified, modified, or adverse opinion on Farmland's internal control. While assessing

Farmland's internal control is paramount to determine the nature, timing and extent of substantive audit procedures, more stringent audit procedures must be adhered to if the company is an issuer, and an integrated audit report is required. The integrity of management must be discussed based on the illegal act that was identified, and how management responded when the auditor brought it to their attention. A matter of importance that is expected to be discussed in the discussion forum would be the resignation of the CFO at the end of the audit. Integrity of management is not limited to current engagement, but also whether they want to continue their professional relationship (AICPA AU-C 250; PCAOB AS 2401).

Lastly, if the transaction is deemed illegal, the auditor should report the matter to the board of directors whether the company is private or public. Auditors are not usually required to disclose illegal acts to stakeholders out of the company, as this might lead to an ethical, legal or a violation of the confidentiality rule of conduct. However, in some circumstances, if the illegal act is material to the financial statements, the auditor may be required to report it to the SEC. In addition, if Jameil CPA withdraws from the audit engagement because the board of directors have not taken corrective measures/action, it can be reported in Form 8-K. If it is a private company or non-issuer, the auditor has no reporting obligations, but must consider how this would impact the stakeholders and themselves (PSLRA, 1995).



Ethical Implications

Since Farmland Co. operates overseas, learners should pay special attention to the ethical framework used to determine whether professional standards are being adhered to. The AICPA framework provides guidance and rules regarding ethical standards and professional responsibilities. The framework comprises of principles, rules, interpretations, and other guidance. The principles are conceptual, and goal driven, that encompass the responsibilities of the CPA to the public. Discussions on the AICPA principles for this case may include Jameil, CPA's responsibilities on the engagement, and whether the CPA is able to effectively carry out their responsibilities and obligations to serve and honor the public interest and preserve the level of professionalism that comports with AICPA or PCAOB standards. While Farmland Co. is primarily located in the Caribbean, the auditors should maintain objectivity and independence. In this scenario objective evaluation of the audit evidence based on the accounting principles used to prepare the financial statements is required. Additionally, adherence to the relevant auditing standards to collect sufficient appropriate evidence to determine if the financial statements were prepared appropriately, is paramount. Professional due care is another component of the principles. Auditors should be professionally competent to conduct the audit effectively and adhere to the standards (AICPA, 2020).

The AICPA Code of Professional Conduct rules that may be discussed are related to independence, integrity and objectivity, general standards, compliance with standards and accounting principles. The AICPA code of professional conduct rules must be followed when applicable. For example, the auditors will have to determine if there appears to be any issue that would impair independence. Auditors must be independent in fact and appearance. The materiality, authenticity, and appropriateness of the irregular transaction in the case is evaluated based on the AICPA rules. Rules relating to integrity and objectivity and accounting principles are used to determine the authenticity of the transaction. Learners might discuss the implications of the company located overseas and the possibility of another accounting framework that was used to prepare the financial statements. In this situation, the learners must discuss the threat to code compliance. Although the company is located overseas, the premise of threat is whether reasonable people would be misled by the company's financial statements. Safeguards to an identifiable threat of compliance because of the different ecosystem/country must be illuminated and discussed. It appears that safeguards that should be implemented by Farmland are inadequate based on management response. Therefore, the auditors should consider the safeguards put in place by the CPA company and legislation. An effective safeguard in this situation could be to issue a disclaimer of an opinion based on the CPA company's policies and procedures (AICPA, 2020).

Learners should discuss the implications of the CPA firm auditing an issuer and a non-issuer. Courses of Action to be Assessed.

Instructors should expect different responses in the discussion forum. The objective is for the learners to discuss the issue/s and take reasonable positions supported by facts, policies, and laws. CPAs evaluate and respond to risks differently. Therefore, although the facts of the case are the same, the responses could vary.

- (1) Jameil, CPA may issue a good opinion, which is an unqualified opinion. Learners should support this position by stating that the illegal acts are immaterial to the financial

statements. The second issue is regarding the resignation of the CFO. An argument may be made that he is no longer working with the company, and failure to sign the representation letter is acceptable, because the CEO who is an officer of the company is signing off on the representation letter.

(2) Jameil, CPA may issue a qualified or an adverse opinion. Learners should support this position by explaining that the financial statements depart from generally accepted accounting principles. Farmers Co.'s management also failed to disclose the illegal acts. The pervasive departure from GAAP is used to determine if a qualified or adverse opinion is appropriate. Learners are expected to argue that any illegal activities by the client are material based on the qualitative characteristics of materiality, especially when management fails to take any steps to prevent the acts. If the auditors take this course of action, they should also consider whether the illegal act and related actions by management and the board indicate that a material weakness exists and would affect their report on internal control over financial reporting.

(3) Jameil, CPA may issue a disclaimer of an opinion and withdraw from the engagement, because Farmland Co. management failed to act. This may be a scope issue because the CFO who was involved in the audit was unwilling to sign the representation letter. Although the newly appointed CFO was willing to sign the representation letter, he was not involved in the audit. The fact that management failed to take any reasonable steps to address the issue identified by the auditor may be a basis for the disclaimer of an opinion.

(b) Learners should state their opinions on the appropriate courses of action.

It is expected that responses will vary among the three alternatives. At the end of the week, the instructor must provide a summary of the discussion forum learning objectives and provide useful feedback on the case. Issuing a disclaimer of an opinion and withdrawing from the engagement must be noted. Farmland management's refusal to take any action to prevent the acts in the future provides a signal to lower-level management that top management possibly approves of illegal acts. Such a dismissive complacent approach may impact the auditor's assessment of the effectiveness of the control environment, a key component of an effective system of internal controls. The auditors clearly should question the integrity of management in this situation.

CONCLUSION

The discussion forum is a useful pedagogical tool, not only for asynchronous classes, but for remote and traditional classes to facilitate experiential learning. The forum can be used to bolster and or assess higher order critical thinking which involves analyzing, evaluating, and synthesizing information to draw well-reasoned conclusions. It enables students to make informed decisions, solve problems, and communicate effectively. Communication is not necessarily oral but through written supported narratives or memorandum that add value to their respective careers. It is a medium in which students can express and reflect on what they have learned, seen and experienced (Merriam, 2000). This case demonstrates that the discussion forum can be used to dismantle complex or large assignments into smaller realizable and practically oriented assignments. These assignments can be used by instructors as a means of assessing whether students are understanding the concepts and providing feedback as needed.

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