Assurance Services

Introduction

Assurance Services

- Independent professional services that improve the quality of information, or its context, for business or individual decision makers.
- Making better decisions:
  - Capture information
  - Information reliability
  - Improved decision-making

Fort Wayne is the city of Churches

- A family unfamiliar with Fort Wayne is considering moving to the area. Having a number of worship choices is important to them, so they would like to be assured that the above assertion is true. How would you go about that?

Assurance Services

- Who benefits?
  - Decision makers
  - Management
  - Consumers
- What benefits?
  - Reduced uncertainty about true state of product/service performance
  - Improved image of openness policy
  - Improved justifiability in reliance on performance measures

$ 50 million street value

- Since high profile drug busts can affect the public's view of police and elected officials, a watchdog group wants to assure the public that local newspapers accurately report the value of such drug busts. What evidence do you need to gather to provide assurance on the accuracy of the reporting?
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- Includes: Attestations (audits, agreed-upon procedures, and reviews), compilations, and some management consulting

- Risk Assessment
- Business Performance Measurement
- Information Systems Reliability
- Electronic Commerce
- Health Care Performance Measurement
- Other – Policy compliance, outsourced internal auditing, trading partner accountability, mergers and acquisitions, ISO 9000, AIMR compliance, and WWW assertions.

Assurance Services

- Independence
  - Is primary purpose to improve the quality or context of information? (if no, independence not required)
  - If yes, is the engagement under SAS, SSAEs or SSARS?
    - Meet Code of conduct rules
    - If SEC, etc. must meet those rules too.
  - If no, the engagement team must have no interests that create an unacceptable risk of material bias with respect to the quality or context of information that is the subject of the engagement.

Assurance Services

- Given SOX, will the development of assurance services change?

- Changes needed:
  - Increase value added
  - Change timing
  - Attack tough problems

Assurance Services

- Risk assessment
  - Comprehensive profile
  - Management system

- Business risk: threats to achieving objectives and executing strategies
  - Strategic environment
  - Operating environment
  - Information risks
Assurance Services

- Business Performance Measurement
  - Relevant and reliable measures of objectives and industry norms

- System reliability
  - Internal information system designed and operating in accordance with specified criteria.
  - Management service
  - External service

DDS – What the Problem?

- Get into groups of three
- State DDS’s problem in one sentence
- Write sentence on board
- Eat until all groups done
- Select and revise stated problem

What attributes address the problem?

- Good internal control system
- Client background investigations
- Independently verified D-1 form (advertising)

DDS – Getting started

- Create an eight item to do list to address DDS’s problems:
  1. Collect Industry background information
  2. Identify DDS internal control strengths and weaknesses
  3. Evaluate assertions about background checks
  4. Test assertions about benchmarks
  5. Test assertion about age and salary
  6. Develop tests about age, income and degree assertions
  7. Test assertions about age, income, and degrees
  8. Research and recommend procedures to protect clients

DDS – Overall Considerations

- Turn in bound (for example notebook or report binder) file of completed project
- Organization
  - Report for client - DDS
  - Report for client to use with customers?
  - Workpapers for reviewing partner
- Continuity – complete in parts, but turn-in as a whole
**DDS – Getting Started**

- **Project 1:** In-class group
  - Take 15 – 20 minutes to brainstorm ideas for finding information about industry.
  - Take 10 minutes to write-up a memo to K. Pollock, Manager from the group. (Turn-in).
  - As a class bring ideas together.

**DDS – Review for Projects 2, 3, 4**

- **Internal Controls:**
  - **Goals:**
    - Protect the assets of the company
    - Provide for a reliable system of reporting
    - Promote effective and efficient operation to achieve company goals
    - Comply with applicable laws and regulations

- **Internal Control – Principles:**
  - **Components:**
    - Control environment
    - Risk assessment
    - Control activities
    - Monitor system
    - Accounting information and communication

- **Control activities:**
  - Limit physical access
  - Segregate duties
  - Proper Authorization
  - Adequate documents and records
  - Independent checks of performance

- **How can the system be compromised or corrupted?** Review a system in light of the company’s goals. Use the internal control components, especially control activities, as a catalyst for identifying strengths and weaknesses.

- **What is/are the goal(s) of DDS’s internal control system?**
- **What is the DDS system? What are its documents and databases?**
- **What are DDS’s control strengths?**
- **How can you test compliance with its strengths?**
**DDS – Projects 2, 3, 4**

Discuss each of the following in your group, jotting down answers:

- What is the impact of DDS’s weaknesses?
- How do the weaknesses affect DDS?
- How can we determine the extent of the weaknesses?
- How can DDS’s address the weaknesses?

**Statistical Review**

- **Averages** – use the +/- standard deviation rule.
  - Example:
    - Predict class average GPA to be 3.3.
    - Calculate actual average and std. dev. (Note that letter grades would need to be converted to numbers.)
    - Create range by +/- std. dev. from actual average.
    - If prediction falls within range accept hypothesis.

**Goal achievement t-test examples**

- Testing for Averages Above a Certain Benchmark
- Hypotheses to be tested are
  - $H_0: \mu \geq 110$
  - $H_a: \mu < 110$
- Decision Rule:
  - Reject $H_0$ if $t < -2.132$ (from table using .05 is the level of significance and $t$; $n-1$)
  - Accept $H_0$ if $t \geq -2.132$

**t-tests continued**

- $t = \frac{(\text{sample mean} - \text{target average})}{(\text{sample standard deviation} / \text{square root of sample size})}$
- $t = \frac{(103.6 - 110)}{9.18 / \text{square root of 5}} = -1.56$
- The null hypothesis is accepted, which means that the average life of the components is at least 110 hours.
t-tests, part 2

- Hypotheses:
  - H₀: µ = 12
  - Hₐ: µ ≠ 12

- Using a 1% level of significance, the decision rule for the test is:
  - Reject H₀ if t > 2.797 (from table using 1%/2 and 24, n = 1)
  - or t < -2.797
  - Accept H₀ if -2.797 ≤ t ≤ 2.797

- From the sample information:
  \[ t = \frac{(12.02 - 12.00)}{(0.02 / \text{sr} 25)} = 5.05 \]

- Resulting in a decision to reject the null hypothesis. This decision suggests that the average length of rulers is not 12 inches. Some adjustments to the production process are needed.

Stats

1. + and/or - standard deviation test
2. t tests
3. Rule-of-thumb
4. None of the above

Grade is affected by choices, choose best not easiest

Dave’s Dating Service

Projects 5 through 8

DDS Project 5 - Individual

- Refer to the given instructions for specifics.
- Excel: PEARSON(x-range, y-range)
- Results indicate how well x and y relate to each other.
- The higher the number the more they relate (i.e., correlate).

DDS – Project 6 and 7

- Test given assertions
  - SS either 15, 25, or 30
  - 90% sure, but what will you tolerate?

DDS 6 and 7

- In groups
  - Prepare a simple diagram of the document flow of information for Dave’s Dating Service
**DDS Project 6 and 7**

- **In your group:** For the assertions given in the assignment, construct procedures to perform given the following potential errors:
  - Entry errors.
  - Misrepresentation errors.
  - Fictitious listings.
  - Omission errors.
  - Summarization errors.

Note: Each person needs a copy of the procedures for the individual assignment.

**DDS – Project 8**

- Research (include citations) and report on preventing inappropriate person getting into data base.

**DDS Recap**

- Projects 5, 6, 7 and 8 due two weeks from today.
- Turn-in completed project by March 4
  - Organized
  - Report like (not homework, single space)
  - Take a step back and make sure you are presenting one cohesive package for the entire project.