

## **AUDITING CLASS TEAM PROJECT: ANNUAL REPORT AND PROXY STATEMENT**

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### **ABSTRACT**

This paper presents a hands-on auditing / corporate governance project that helps students learn about both US-based and International-based reported accounting information. This project is designed to have students working in teams and become active participants in the learning process. Jackling (2013) says that accounting educators need to adopt their teaching practices to meet the challenges of International Financial Reporting Standards. This paper contributes to the accounting education teaching practices. This project is designed to teach auditing students about the contents, similarities, and differences of U.S. and International annual reports and proxy statements that goes beyond mere memorization as they search for and report on specific information. Students use hands-on learning technique and group learning to enhance deeper knowledge structure.

Feedback from students was overwhelmingly positive. This project helped increase the knowledge of 94% of the students of how a public company communicates to their shareholders. Students (91%) also learned about the information differences and similarities between the U.S. reports and the UAE reports of public companies. The students (96%) believe that that this audit project was a useful addition to the textbook material and that the project should be used in the future.

Keywords: Auditing, Proxy Statements, SEC Financial Reporting, Accounting Education

“Accounting education should help students develop broader skills.”

McGowan (2012)

Issues in Accounting Education

### **INTRODUCTION**

This paper describes a hands-on auditing / corporate governance project created to have students become active participants in the learning process. Hands-on experience requires students to use critical thinking skills because the “correct” answers vary relative to the facts and circumstances. The purpose of this auditing / corporate governance project is to have students work in teams as they develop knowledge about the information contained within publicly disclosed corporate governance reports. This project is designed to teach auditing students about the contents, similarities, and differences of U.S. and International annual reports and proxy statements that goes beyond mere memorization as they search for and report on specific information.

This paper is motivated by the desire to introduce international accounting students to international and U.S. financial reports who attend an accredited university outside the USA in a developing country once ruled by the British, where some publicly traded companies use GAAP and others use international financial reporting standards (IFRS) to report

their financial performance. Further, at the university, we use U.S. financial accounting textbooks that focus on U.S. generally accepted accounting principles (GAAP) and U.S. auditing textbooks to teach U.S. generally accepted auditing standards (GAAS) in the classrooms. Albrecht & Sack (2000) critiqued accounting courses because instructors were not exposing students in the right ways to highly relevant concepts such as globalization and technology. Jackling (2013) says that accounting educators need to adopt their teaching practices to meet the challenges of International Financial Reporting Standards. This project takes a hands-on approach towards meeting this challenge.

This paper is also motivated by the desire to increase my students' knowledge and/or familiarity about the contents of the annual reports and proxy statements used to communicate (unobservable) corporate information to stakeholders. Further, it seems as if it is not until the auditing class that the textbook content dedicates more in-depth discussion about the corporate governance structure and reports. I was motivated to create this project because I recognized my 400 level auditing students' lacked the knowledge and/or familiarity about the contents of both the annual reports and proxy statements used to communicate (unobservable) corporate information to stakeholders. My challenges became: Since I am using a U.S.-based auditing textbook in a country where many public companies tend to follow International Financial Reporting Standards (IFRS), how do I teach these international auditing students about the contents of annual reports and proxy statements that go beyond mere memorization? How can I best prepare the students for their professional career?

In response to these challenges, I created a project for auditing students designed to help develop knowledge about how to obtain companies' accounting, audit report and other governance information that are disclosed in the annual reports and proxy statements for both U.S. and International public companies. This project instructs students to use the internet (technology) to search for and obtain corporate reports from two companies, one company that uses U.S. GAAP and the other company that uses International GAAP (or Non U.S. GAAP) for financial reporting purposes. Students then search for specific content information within the reports that are produced by corporations for public consumption.

The accounting curriculum's model of rule-based, memorization, test for content does not prepare students for the ambiguous business world they will encounter upon graduation (Albrecht & Sack 2000). Mere memorization does not develop knowledge structure because students forget what they memorize. I wanted my students to not forget how to find information and to have knowledge of the contents contained within the annual report and proxy statements. So I took a learn-by-doing hands-on approach which goes beyond mere memorization and increases knowledge structure. Knowledge structure, or the way in which individuals organize knowledge, is important because it is a primary determinant of expertise in any professional field (Curtis and Davis 2003). Knowledge structure is often viewed as one of the keys to effective decision performance (Bedard and Chi 1993; Libby and Luft 1993; Nelson, Libby Bonner 1995). My overall goal is to prepare accounting majors for careers in a dynamic international business world.

Therefore, this project assignment deemphasizes the memorization approach and focuses on developing core competencies such as critical thinking, team work, and online (internet) experience involving real companies. This project forces students to deal with uncertainty because they do not know in advance what they will find. Then students must communicate their findings by providing a written team report to me, their instructor, with supporting documentation. Students will discover how the U.S. based annual reports and proxy statements are similar to and/or different from the annual reports and proxy statements in another country. This project contributes to the accounting education by requiring students to use technology to research and find specific business information. Task does not require memorization, but develops knowledge structure on how and where to look for specific information that often varies across corporations, and then report the relevant information, if it is available, because sometimes it is not.

### **THE TASK**

The task is the Auditing Class Team Project: Annual Report and Proxy Statement. Below I describe the steps I used to implement the task, getting students started, and completing the task. To get started, I used 1.5 days of class time to

organize the teams, to instruct and help guide students through the company selection process. Students should bring laptops to class.

First step: Organized students into teams. For this project, I preferred two students to a team. I had let students self-select their teams or you could use a random selection process. Provide a copy of the Project to each student. Instructor should record team members on the Control Sheet.

Sample Control Sheet

Start Date	Team #	Team Member Name	Name of International Company	Annual Report	Proxy Statement	Name of U.S. Company	Annual Report	Proxy Statement	date of completed binder	date turned in	Score
	1										
	2										
	3										
	4										
	5										
	6										
	7										
	8										
	9										
	10										

Second step: In class, instructor should direct students to the online U.S. and International websites from which the students can view and print the reports. For example, U.S. public companies must file with the Securities & Exchange Commission, so direct students to the SEC.gov website. Have students choose two companies: one U.S. company and one International company. I preferred having the students to look up and choose the two companies themselves. As student teams choose their two companies, each team should verify that each company is subject to the three class requirements below:

- i. Teams cannot choose the same companies. Each company must be unique. I used a first come - first serve basis. This requires real time recording of company names on the Control Sheet as each company is chosen per team.
- ii. The first company can be any publicly traded company listed on the US Stock Exchange. These companies are required to file an annual report and proxy statement with the SEC. Students should verify that the two reports are available online.
- iii. The second company can be any publicly traded company listed on the UAE International Stock Exchange. Several countries have their own stock exchange. Publicly traded companies have disclosure requirements. Students should verify that the two reports are available online. This verification step is a very important requirement. We (the students and I) discovered two important things. First, the proxy statement is also called the Corporate Governance Report in the UAE. This discovery did not present a problem. Second, not all firms had the required disclosures available online. This did present a problem,

especially for those teams that did not follow verification instructions. Without both reports, a team cannot complete the project. So, the team had to choose another unique company. (Note, the annual report and proxy statements may also be found on the company's website, usually under Investor Relations.)

Third step: have each team print one copy of the annual report and the proxy statement for each company. Place reports in a 3-ring binder (notebook) containing four tabs as specified in Appendix C. Consistency of report placement requires students to follow instructions and makes it easier for instructor review when students turn in the project for grading. Per tab, instruct students to place one project Assignment form in front of each report.

- Tab 1 – UAE International Annual Report;
- Tab 2 – U.S. Annual Report filed with the SEC;
- Tab 3 – UAE International Proxy Statement;
- Tab 4 – U.S. Proxy Statement.

Fourth step: have each team bring 3-ring binder to class. Use Control Sheet to check off and date that each team has completed step 3 correctly. This progress check is important and serves to minimize team procrastination.

In my class, a lot of learning had taken place in these first three steps. For most of the students, it was their very first time accessing the website of any stock exchange, SEC's or UAE's. For many students it was their first time retrieving a company's annual financial report. So, how to retrieve company information became a big deal. Many did not really know what a proxy statement was although some heard the word before. I would circulate the room fielding questions. Once I asked one team that I had helped previously to assist another team, students understood that I did not expect them to stay in their seats. Teams were moving about the classroom helping each other access reports. Students were focused and engaged. I found that students took pride in making satisfactory progress at this point.

Students learned that the Annual Report on the SEC's website is referred to as the 10K, and def-14 refers to the Proxy Statement. We learned that in the UAE, the proxy report is often titled Corporate Governance Report. We also discovered that sometimes the UAE proxy statement was only available in the Arabic language.

The next step is to have each team complete the task.

- Complete the questionnaire assignment for each tab.
- For each question, record the page number(s) and highlight the answer on the appropriate page(s). Sometimes information is not available in the reports. If this is the case, then student should write "not available" indicating student search effort occurred but relevant information was not found. Instruct students not to leave the question blank.

Completeness and accuracy matters. Most of the work is performed outside the classroom. Students learned how to navigate through lots of corporate information. I observed teams working with other teams to help them search for content. I told the students that leaving the question blank indicates to me that *no* attempt was made to answer the question or to retrieve the information. Instructor should double check the "not available" responses for completeness and accuracy when grading the project.

Establish a due date. Allow 30 minutes for in-class time about two weeks before deadline for student questions and to assess student progress. I used this time to informally verbalize lavish praise to those teams who have made significant progress as I circulate the room. Upon hearing this, it had also put the slower teams on notice. This is not a difficult project but it does take time. The final score should be based on the completeness and accuracy of the project. In addition, I had included a few general questions about the project on the final exam, questions that would remain the same regardless of company chosen, such as 'Where do you expect to find the auditor's opinion on internal control? Where will you look if you want to see who is on the audit committee? Which report would you use if you wanted to review footnote disclosure on accumulated depreciation?

This hands-on approach project benefits student by helping them become more competent in using technology to find specific business information. I think a good business person knows how to find information.

Feedback from the students was overwhelmingly positive. Of the 53 students, 70% strongly agree and 30% agree that this audit project increased their knowledge of how to search for a public company's annual report and proxy statement. For 96% of the student, it was the first time they reviewed the proxy statement of any company. This project helped increase the knowledge of 94% of the students f how a public company communicates to their shareholders. Students (91%) also learned about the information differences and similarities between the U.S. reports and the UAE reports of public companies. Finally, the students believe that that this audit project was a useful addition to the textbook material and that the project should be used in the future.

## AUDITING PROJECT ASSIGNMENT

Cover Page

Member 1: \_\_\_\_\_ ID#: \_\_\_\_\_

Member 2: \_\_\_\_\_ ID#: \_\_\_\_\_

Name of UAE company

Name of SEC company

Class: BUS416-501 or BUS416-502

### Annual Report Questions

What to do:

1. Place one questionnaire in front of the UAE Annual Report (Tab 1). Place one questionnaire in front of the SEC Annual Report (Tab 2).
2. Record answer, page number(s), and highlight answer on the appropriate page(s) in the Annual Report.

1. What is the name of your company?
2. In what industry is this company?
3. Is this firm listed on the (circle correct one) NYSE – New York Stock Exchange?  
ADX – Abu Dhabi Stock Exchange? DFM – Dubai Financial Market Stock Exchange?
4. In the beginning of your Annual Report is there a letter addressed to the Shareholders?
5. If you answer *yes* to question above, then tell me who (name, title or position) signed the letter and on what date? Briefly, what is discussed in this letter? If you answer *no*, then write “not available”.

6. Does the Annual Report contain a letter or Report from the Independent Auditor?
7. If you answer **no** to the question above, then write “not available”. If you answer **yes** to question above, then tell me the following information:
  - a. name of the independent accounting firm that wrote the audit opinion,
  - b. the date of the letter,
  - c. to whom it is addressed,
  - d. the location of the office responsible for conducting the audit.
8. Was an Integrated Audit conducted. Briefly discuss the type of Auditor’s Opinion(s) expressed.
9. Does this annual report follow *U.S.-based* or *International-based* generally accepted accounting principles?
10. How many Balance Sheets (or Statement of Financial Positions) are in your annual report?
  - a. What is the year ending date of each Balance Sheet?
11. How many years are reported for the Income Statements in your annual report?
  - a. What is the year ending date of each Income Statement?
12. What are the amounts of Cash Flow from Operations? (Start with the most recent year first)  
\_\_\_\_\_
13. What are the following year-end account balances and/or ratios? (list the most recent years first)  
Date \_\_\_\_\_ Date \_\_\_\_\_ Date \_\_\_\_\_  
Cash  
Total Current Assets  
Total Current Liabilities  
Current Ratio  
Total Noncurrent Liabilities  
Total Assets  
Total Liabilities  
Total Debt-to-Asset Ratio  
Total Common Stock

Total Retained Earnings

Total Shareholders' Equity

Debt-to-Equity Ratio

Net Revenues (or Net Sales)

Net Income

Net Profit Margin

Net Worth to Sales Ratio

Number of Common Shares Outstanding

14. (a) Who is the President of the Company? (b) Who is the CEO of the Company? (Sometimes the President/CEO are two different people)

President:

CEO:

15. Identify and briefly discuss three important issues discussed in the Management Discussion & Analysis (MDA) letter.

i.

ii.

iii.

16. Does the Management Discussion & Analysis Letter to Investors speak of any challenges or concerns? \_\_\_\_\_  
If so, what?

17. What is the topic for footnote disclosure #1?

18. What is the topic of footnote disclosure #11?

19. Which footnote discuss accumulated depreciation?

a. What depreciation method does the company use?

20. What is the number and topic of the last footnote disclosure?

21. Where would you look to determine whether the company has Marketable Securities?

### AUDITING PROJECT ASSIGNMENT

Member 1: \_\_\_\_\_ ID#: \_\_\_\_\_

Member 2: \_\_\_\_\_ ID#: \_\_\_\_\_

Name of UAE company

Name of SEC company

Class: BUS416-501 or BUS416-502

### Questions for the *Proxy Statement*

What to do:

1. Place one questionnaire in front of the UAE Proxy Statement (Tab 3). Place one questionnaire in front of the SEC Proxy Statement (Tab 4).
2. Record answer, page number(s), and highlight answer on the appropriate page(s) in the Proxy Statement.
  1. What is the name of your company?
  2. In what industry is this company?
  3. Is this firm listed on the (circle correct one) NYSE? ADX? DFM?
  4. In the beginning of your Proxy Statement is there a letter addressed to the Shareholders?
  5. If you answer *yes* to question above, then tell me who (name, title or position) signed the letter and on what date? Briefly, what is discussed in this letter? If you answer *no*, then leave write “not available”.
6. What are the items of business to be discussed at the Annual Meeting? (write “not available” if not stated)
7. Create a Board of Director’s Table that identifies, per board member, the name, age, gender, committee membership(s), the title held for the committee, if any (for example: chair), other board memberships (of other organizations), and director compensation.
8. According to the Proxy Statement, what is the responsibility of the Board of Directors? (May be discussed in the general information section.)
9. According to the Proxy Statement, what is the responsibility of the Audit Committee?
10. Do the Board members discuss the policies of how executives earn their compensation? On what pages does this discussion occur?
11. What page number of the Proxy Statement will I find a table that summarizes the executive compensation?

12. What page number(s) of the Proxy Statement will I find the Report of The Audit Committee of the Board of Directors?
13. Identify (in bullet point form) the basic points discussed in the Report of The Audit Committee.
14. Who is the Independent Auditor for the current and prior year?
15. Who is the *pre-approved* Independent Auditor for the upcoming year?
16. FEES. How much did the company pay in auditor fees for the current and prior years? (Complete the table below.)

TYPE OF FEES	CURRENT YEAR  OF	% OF TOTAL	PRIOR YEAR  OF	% OF TOTAL
<b>AUDIT FEES</b>				
<b>AUDIT RELATED FEES</b>				
<b>TAX FEES</b>				
<b>ALL OTHER FEES</b>				
<b>TOTAL AUDITOR FEES</b>		100%		100%

17. According to the Proxy Statement, how does the Audit Fees differ from the Audit-Related Fees?
  18. According to the Proxy Statement, what type of services is included in All Other Fees?
  19. Does the Proxy Statement contain a letter or Report from the Independent Auditor?
  20. If your answer is *no* to the question above, then write “not available”. If your answer is *yes* to question above, then tell me the following information:
    - a) name of the independent accounting firm that wrote the audit opinion,
    - b) the date of the letter,
    - c) to whom it is addressed,
    - d) The location of the office responsible for conducting the audit.
  - e) Was an Integrated Audit conducted? Briefly discuss the type of Auditor’s Opinion(s) expressed.
21. List the various stockholder proposals.
22. Identify the name(s), title(s) and date of person who signed the last page of the Proxy Statement.

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