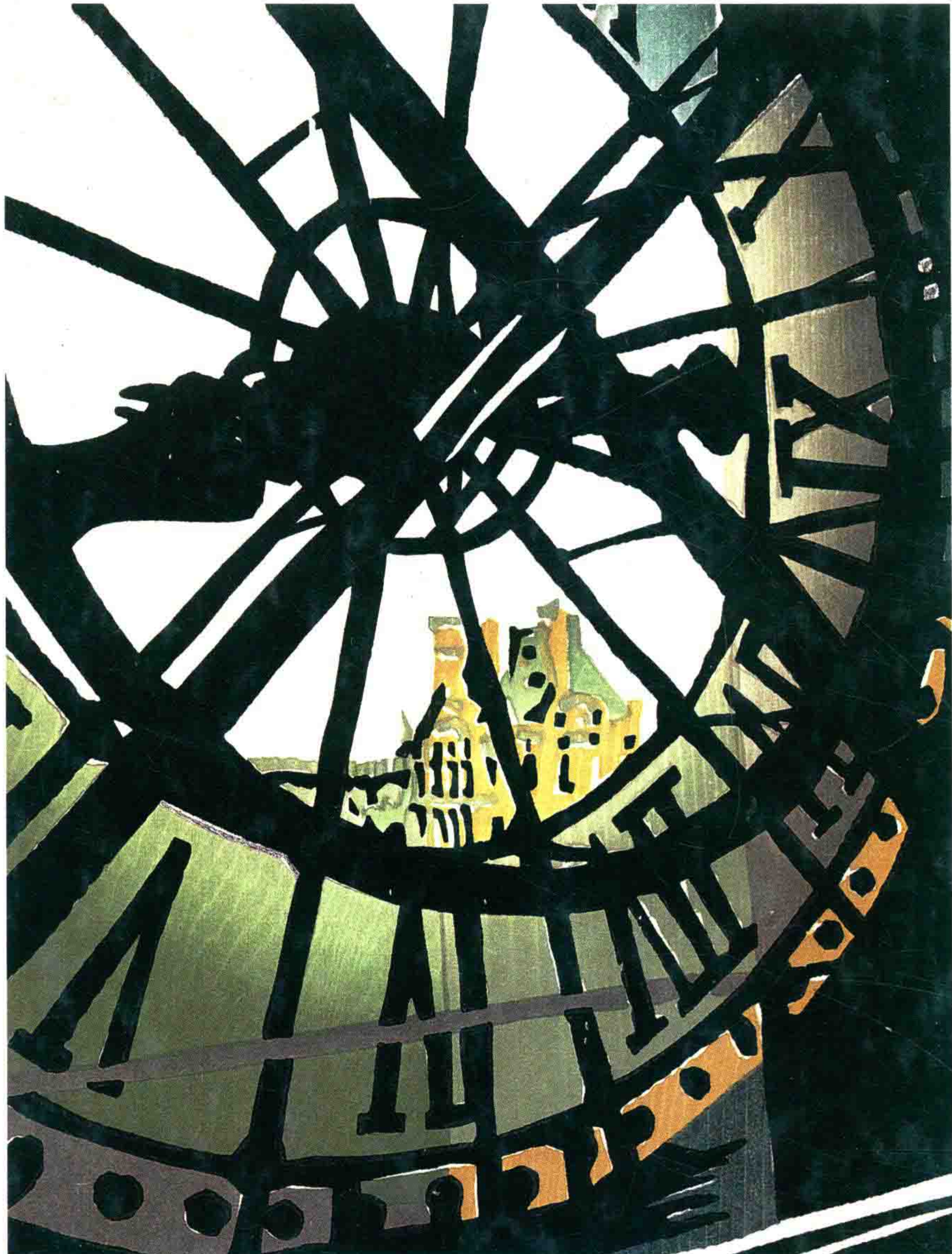



WILLIAM R. KINNEY, JR.

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INFORMATION QUALITY ASSURANCE AND INTERNAL CONTROL FOR MANAGEMENT DECISION MAKING

WILLIAM R. KINNEY, JR.

University of Texas at Austin



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Native Texas artist Daryl Howard (see: howard@jump.net) uses ancient Japanese woodblock techniques and the lens of the Musée d'Orsay's twentieth-century clockworks for "Now. . . is the Moment," a twenty-first-century impresssion of the timeless spirit of the Louvre. The scene parallels Kinney's focus on the global and timeless demand for high-quality information and its changing expression, as information technology takes us into the twenty-first century.

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INFORMATION QUALITY ASSURANCE AND INTERNAL CONTROL FOR MANAGEMENT DECISION MAKING

Dedicated to William R. Kinney Sr. and
Linda Jo Powell

P R E F A C E

Information technology, globalization, and related developments have made businesses increasingly dependent on high-quality information for decision making. Business decision makers need assurance that they have relevant and reliable information available at the right time and at a reasonable cost. Assurance can be obtained from the independent assurance professionals, whose job it is to improve the quality of information for decision making, and from internal control designed to help management achieve its objectives.

A MANAGEMENT INFORMATION APPROACH

This book is about improving the quality of information for decision making as well as improving the context of the decision to be made. The book and cases focus on management's needs to reliably:

- ♦ **inform itself** about relevant aspects of its business and protect its assets (chapters 1 through 6),
- ♦ **inform others** about relevant aspects of its business to lower the costs of capital, production, storage, selling and distribution (chapters 7 through 10), and
- ♦ **comply** with applicable laws and regulations (chapters 11 and 12).

We build on related topics in finance, strategy, operations management, information technology, financial statement analysis, and managerial accounting. The book is intended for:

- ♦ Future and current **managers** who will work with information design consultants in addressing information and control problems within complex business organizations, and will deal with auditors in public reporting, securities filings, and business acquisitions
- ♦ Future and current **bankers, investment bankers, analysts, investors, directors, and regulators** who must interpret financial statements and auditors' reports
- ♦ Future and current **auditors, information design consultants, and other assurance professionals** who must understand business measurement, internal control, and external regulatory requirements to add value for their clients.

WHAT IS NEW HERE?

The book is unique (among auditing and assurance services books) in its orientation—that of the business decision maker. We take the perspective of top management in obtaining, evaluating, and using information, rather than the perspective of an accountant preparing information or an auditor verifying information. And although our focus is on how value is added for management (the customer), future or current auditors and accountants can benefit by understanding essential sources of value added by their services.

Enterprisewide software is the platform for analyses of an integrated financial, operating, and human resources database. This is consistent with emerging business practices that exploit information technology through new business organizations and strategies, and integration of nonfinancial performance measures. It also allows a focus on information quality by design (error prevention), rather than by detection and correction of information errors.

Our management information approach is global and is not tied to a particular country's laws, business practices, or culture. However, principal U.S. accounting and auditing standards and business-reporting practices are illustrated as are those of selected jurisdictions in Asia and Europe. This allows appreciation of the interaction of regulatory and voluntary actions by decision makers.

The global, enterprisewide software, and information-technology-based approach is combined with initiatives of the AICPA through its Special Committee on Assurance Services and CPA Vision Project. The book is the first to fully incorporate the Vision 2000 statement through a broad range of professional services directed at information quality improvement and preservation of professional attributes. Also, the CPA's auditing activities are based on the AICPA's Engagement Risk Model, which considers the CPA firm's overall risk of association with client management. Finally, consistent with recommendations of the Accounting Education Change Commission, the book uses interactive rather than problems.

WHY INTERACTIVE CASES?

The book focuses throughout on management's use of information to improve decision making under uncertain conditions. Cases that address uncertainties and the inherent controversies and conflicts of interests underlying business transactions are central. They consider the essential roles of the independent professional assurer and verifiable objective information in reducing uncertainty and resolving the controversies. The cases emphasize the relevance, reliability, and cost of information to form mental images and make decisions.

The decisions require business information evaluation for buy/sell decisions, business valuation, performance evaluation, risk assessments (including incorrect information risk), management buyout incentives, fraud, and the hidden "codes" that auditors use to signal information quality. The cases are sometimes incomplete. Students must retrieve their own knowledge about management, business operations, contracts, and finance, and think through other individuals' self-interested behaviors in approaching the cases.

Small-group discussions and role playing are helpful in formulating approaches to the cases. Students working in small interactive groups addressing the business decisions to be made *rarely* miss the main points of the case. But students working individually and looking for a simple formula or rule to be applied often miss the main points. Thus, the interactive cases parallel real-world conditions!

WHO WILL BENEFIT FROM THIS APPROACH?

The book was written with future managers in mind; its customer orientation and broad focus on assurance services and internal control provides an excellent introduction to CPA

and CA services for five-year Master of Accounting programs. Specifically, it helps financial accounting, managerial accounting, tax, and information systems students understand the roles of CPA/CAs in improving information for decision makers and the conceptual and practical problems they will face.

These same concepts that help assurance professionals understand their business are essential for MBAs who will be making business decisions under uncertainty as managers, investors, analysts, bankers, investment bankers or regulators. In addition, MBAs who want to know how to run their businesses better by informing (and protecting) themselves, informing outsiders, and complying with laws and regulations will appreciate this book's content. The book complements MBA courses such as financial statement analysis, mergers and acquisitions, managerial accounting, management information systems, and taxes for decision making.

WHAT SUPPLEMENTARY MATERIALS ACCOMPANY THE TEXT?

Instructor's Resource Manual Authored by Bill Kinney and Linda McDaniel, University of North Carolina. Consists of solutions and recommended teaching strategies and notes for undergraduate and graduate courses.

Test bank Authored by David Sinason at Northern Illinois University. Consists of 20 multiple choice, 10 short answer essay questions, and 2 additional cases per chapter (384 questions overall).

Web Site A platform for communicating with your colleagues who teach this course. This web site will offer cites to current articles from the financial, professional, and scholarly press (tied to particular chapters), additional teaching strategies and resources, sample syllabi, and new content—primarily teaching cases—as users and the author share ideas.

WHO CONTRIBUTED TO THE DEVELOPMENT OF THIS TEXT?

There are many persons whose influences and efforts should be acknowledged. First, there is Bob Elliott, who has inspired my thinking about CPA services since 1972 (most recently as Chairman of the AICPA's Special Committee on Assurance Services), and Nick Dopuch from whom I learned to think about practice problems in a broad, conceptual way. Second, are the numerous students who stimulated and challenged my thinking at the University of Iowa, University of Michigan, University of Texas, and INSEAD. Third are the reviewers of this manuscript and cases including:

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A B O U T T H E A U T H O R

William R. Kinney, Jr. is a 1963 (BS) and 1966 (MS) graduate of the accounting program at Oklahoma State University. His Ph.D. is from Michigan State University (1968). He has experience as a staff accountant with Ernst & Young in Oklahoma City and consulting experience with six national CPA firms, the Securities and Exchange Commission, and the U.S. General Accounting Office.



Since 1967, Professor Kinney has taught accounting and auditing at Oklahoma State University, the University of Iowa, the University of Michigan, INSEAD, and the University of Texas at Austin. At Iowa, Kinney was the John F. Murray Professor of Accounting and Director of the Institute of Accounting Research. In 1983 he became the Price Waterhouse Auditing Professor in the Graduate School of Business Administration at the University of Michigan where he also served as Director of the Paton Accounting Center. Since 1988, Professor Kinney has held the Charles and Elizabeth Prothro Regents Chair in Business and Price Waterhouse Auditing Fellowship at The University of Texas at Austin. In 1998, he assumed the directorship of the Texas Center for Business Measurement and Assurance Services.

Professor Kinney is author of more than 50 articles in journals such as the *Journal of Accounting Research*, the *Accounting Review*, the *Journal of Accounting and Economics*, the *Journal of Accountancy*, and the *Journal of Financial Economics*. During 1985–87 he was Director of Research for the American Accounting Association, and from 1987 to 1990 was Editor of the *Accounting Review*. He has served on the editorial boards of the *Journal of Accounting Research*, *Auditing: A Journal of Practice and Theory*, and *Accounting Horizons*. In 1983 and 1999 he received the Deloitte and Touche–AAA, John S. Wildman Award Medal and in 1985 he was corecipient of the AICPA–AAA Notable Contribution to the Accounting Literature award. In 1989 he received the AAA’s Outstanding Accounting Educator award, and has received the Auditing Section’s Distinguished Service Award (1993) and Outstanding Educator Award (1996). Professor Kinney has served on various AICPA committees including Auditing Standards Board (1981–1984) and the Special Committee on Assurance Services (1994–1996), and from 1987 to 1991 he served on the Financial Accounting Standards Advisory Council for the FASB.

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