



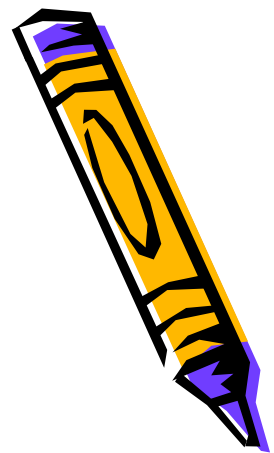
A Movie Project Brings the COSO Internal Control Framework to Life

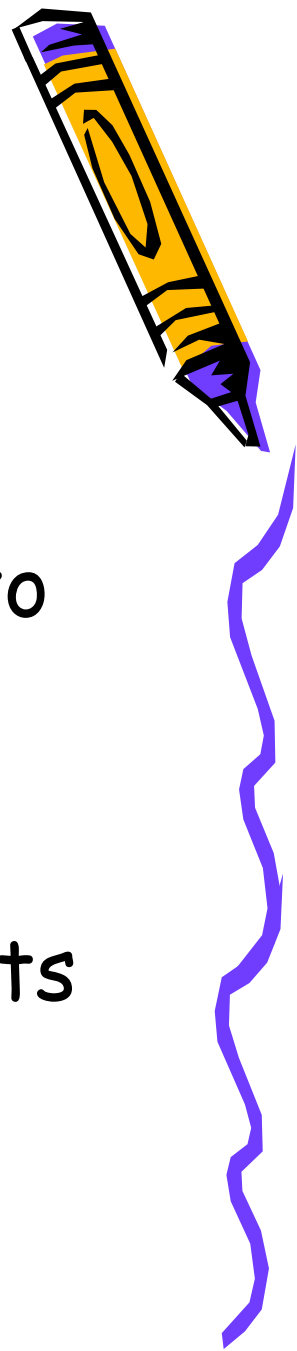
by
Arline Savage & Kate Lancaster
Cal Poly San Luis Obispo



SOX

A basic understanding of Internal Control structure and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework is imperative because of the impact that SOX has had on the accounting profession





- **Problem:** How do you make this material interesting and relevant to students
- **Solution:** Bring it to life by showing **Rogue Trader** to students



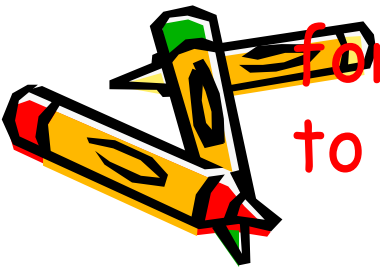
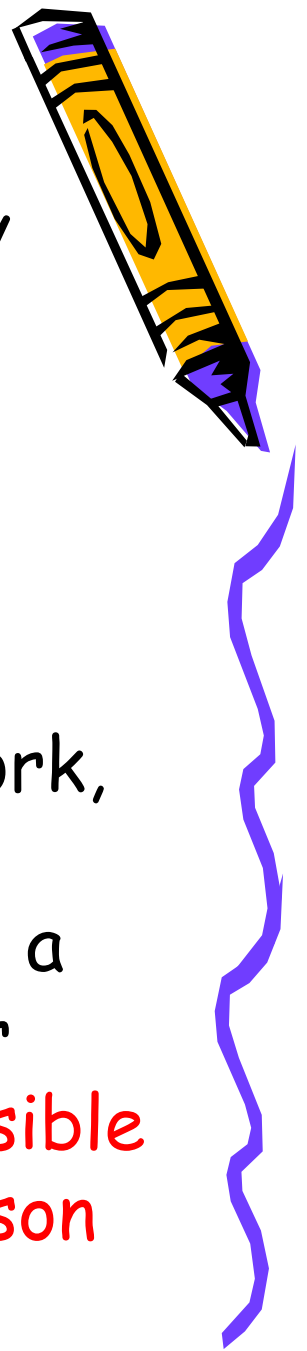
A Movie That Teaches

- Section 110 (1) of the Copyright Act (Title 17) allows educators to show a movie in the classroom as part of the face-to-face teaching activities of a nonprofit educational institution. No permission is needed.

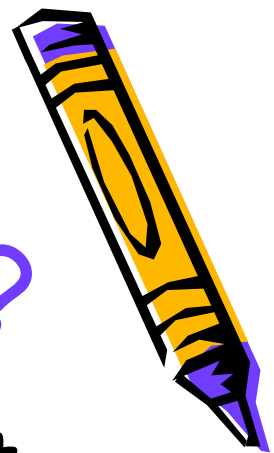


Section 110 (1)

[P]erformance or display of a work by instructors or pupils in the course of face-to-face teaching activities of a nonprofit educational institution, in a classroom or similar place devoted to instruction, unless, in the case of a motion picture or other audiovisual work, the performance, or the display of individual images, is given by means of a copy that was not lawfully made under this title, **and that the person responsible for the performance knew or had reason to believe was not lawfully made."**



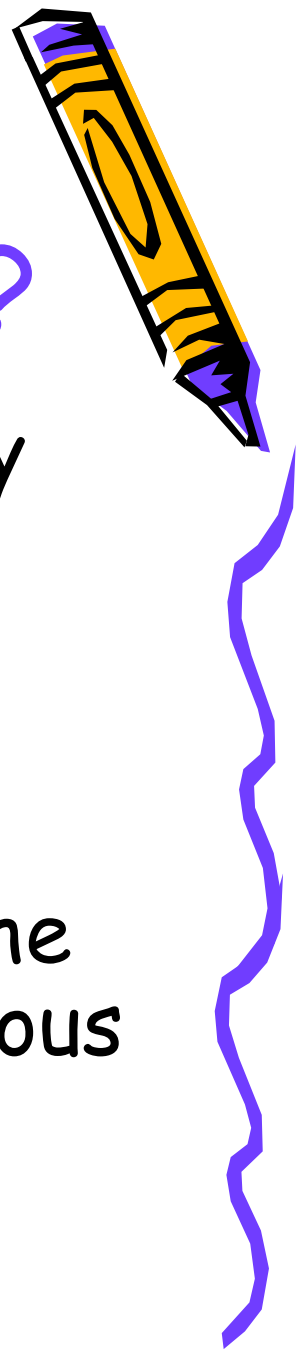
What Does The Movie Show?



- How a "star" employee's fraudulent trading activities in Singapore result in the dissolution of renowned British-based Barings Bank
- The symptoms of employee fraud
- The consequences of fraud to the perpetrator

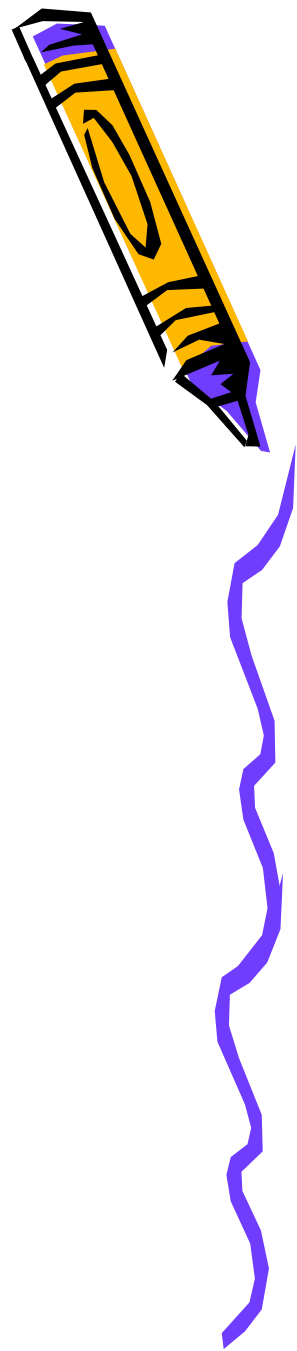


What Does The Movie Show?



- How management can be blinded by greed, tradition, habit, and the assumption that all employees are honest
- How a failure of controls and managerial confusion can lead to the downfall of even the most prestigious of organizations





Advantages for Students

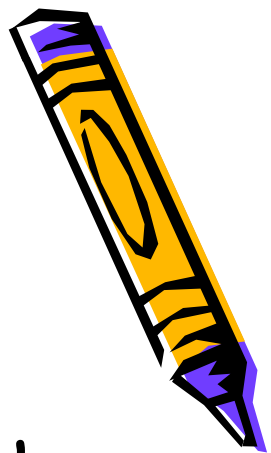
- "Learn-by-doing"
- Increased learning over lecture-based coverage only
- Attention-getting movie makes learning about COSO exciting
- Adds an international "flavour" to learning (U.K., Singapore)



More Advantages

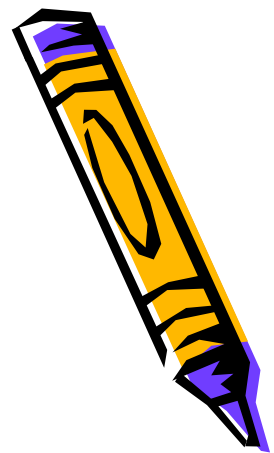
Students discover for themselves the real-life consequences of

- a lack of internal controls
- preferential treatment for a star employee
- lax corporate governance



Problems

- R-rated movie
- Liberal use of profanity
- A few explicit scenes
- Students are amused by our concerns - to most of ours it is a non-issue



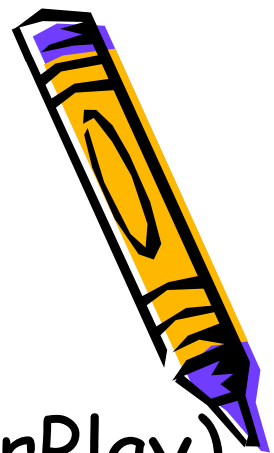
Possibility 1



- Students give written permission to use movie...much to their amusement!
- Students may select an alternative project (2/80 did)



Possibility 2



- Use filtering technology (e.g., ClearPlay)
- ClearPlay enabled DVD players filters movies without making an edited copy
- Viewer downloads filter for a particular movie
- Family Entertainment and Copyright Act (April 2005) legalized filtering technology for home viewing



Possibility 3

- Buy movie from editing company that cleans up movies
- www.FlicksClub.com has edited version (\$29.99)
- Edited movie is 90 minutes long (110 minutes for unedited version)
- Questions in terms of legality, litigation from both sides

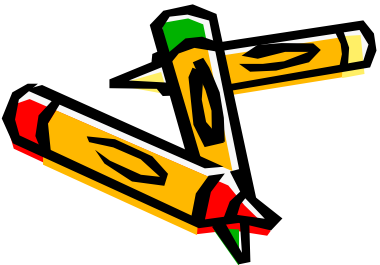


Possibility 3 (cont)



The questions that remain are:

- Do we, as educators, have reason to believe that these edited movies have not been lawfully made, given the statement printed on the edited DVD?
- Does this give us cover, as teachers, to show these edited movies in class?



Possibility 4



- Use book instead of movie
- Rogue Trader, published in 1999, by N. Leeson and Edward Whitley



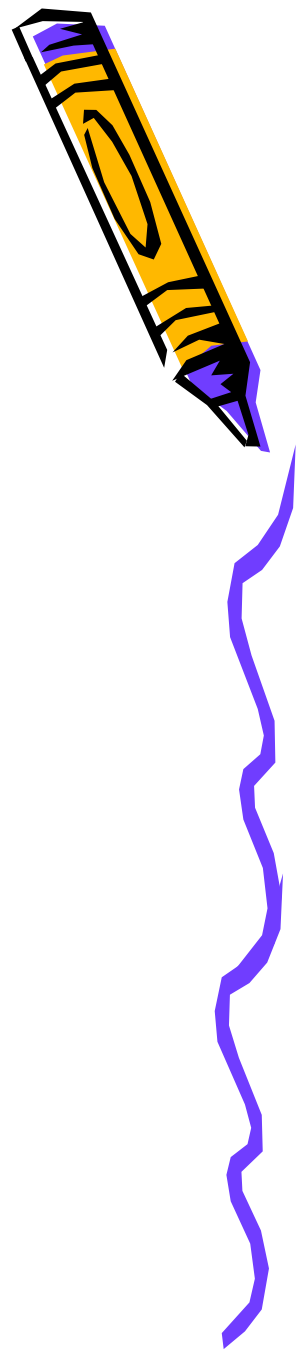
Case Material



- Students receive case handout prior to viewing the movie
- Case material is scenario - new hire is asked to prepare a presentation for firm partners to ensure business collapse similar to Barings Bank does not occur to their clients



Impact on student learning

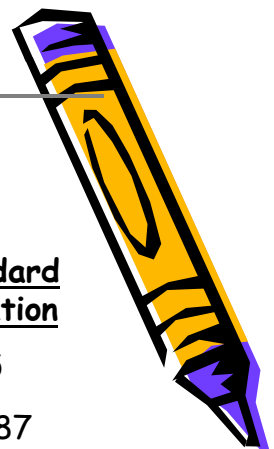


- Administered survey
- 11 questions
 - Before coverage of material
 - After coverage, before video
 - After video
- Demographics
- Student perception of video

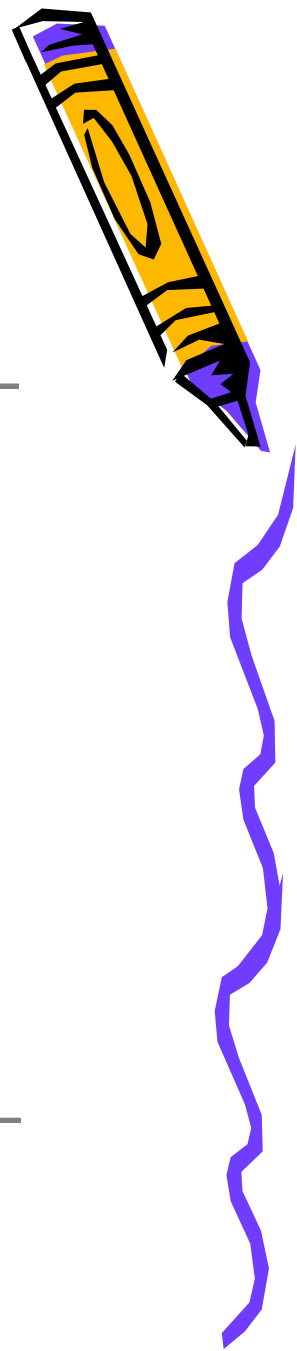


TABLE 1
Student Demographic Statistics

| | <u>N</u> | <u>Mean</u> | <u>Standard Deviation</u> |
|---|----------|---------------|-------------------------------|
| Gender | 86 | 52.3% female | .5 |
| Age | 89 | 22.5 | 2.87 |
| Academic Status | 89 | 65.2% seniors | .48 |
| College GPA (1 = <3.0, 2 = 3.0-3.25, 3 = 3.26-3.5, and 4= >3.5) | 90 | 2.45 | .99 |
| Hours Per Week Spent Studying For This Class | 90 | 6.7 | 4.8 |
| Currently Working | 90 | 62.2% | .49 |
| Apply AIS Concepts in Work Experience | 90 | 40% | .49 |
| Comfort level with computers (0-100 scale, with 100 being very comfortable) | 84 | 86.1 | 12.2 |
| Degree of interest in AIS (0-100 scale, with 100 being very much) | 83 | 60.1 | 22.7 |
| Course material contribute to success (0-100 scale, with 100 being Definitely Yes) | 83 | 73.0 | 23.9 |
| Course material relevant to professional career (0-100 scale, with 100 being Definitely Yes) | 83 | 76.3 | 21.6 |



Questions 1 -4

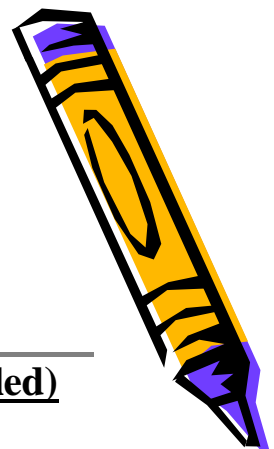


| | <u>t-stat</u> | <u>Sig (1-tailed)</u> |
|--|---------------|-----------------------|
| Q1 Often audit organization's internal controls | | |
| T2 - T1 | 2.788 | 0.003 |
| T3 - T2 | 2.922 | 0.002 |
| T3 - T1 | 5.109 | 0.000 |
| Q2 - Extent of coverage on CPA exam | | |
| T2 - T1 | 4.021 | 0.000 |
| T3 - T2 | 3.603 | 0.000 |
| T3 - T1 | 7.353 | 0.000 |
| Q3 - Importance of understanding internal controls | | |
| T2 - T1 | 0.810 | 0.210 |
| T3 - T2 | 1.997 | 0.024 |
| T3 - T1 | 2.369 | 0.010 |
| Q4 - Current knowledge of COSO framework | | |
| T2 - T1 | 7.036 | 0.000 |
| T3 - T2 | 6.895 | 0.000 |
| T3 - T1 | 11.415 | 0.000 |



Questions 5-8

| | <u>t-stat</u> | <u>Sig (1-tailed)</u> |
|---|---------------|-----------------------|
| Q5 - Importance of communicating policy to employees | | |
| T2 - T1 | 0.709 | 0.240 |
| T3 - T2 | 4.275 | 0.000 |
| T3 - T1 | 3.030 | 0.002 |
| Q6 - Comfort with identifying red flags | | |
| T2 - T1 | 3.972 | 0.000 |
| T3 - T2 | 8.630 | 0.000 |
| T3 - T1 | 9.278 | 0.000 |
| Q7 - Knowledge on implementation of internal controls | | |
| T2 - T1 | 7.005 | 0.000 |
| T3 - T2 | 6.104 | 0.000 |
| T3 - T1 | 10.166 | 0.000 |
| Q8 - Ability to identify specific controls to protect resources | | |
| T2 - T1 | 7.667 | 0.000 |
| T3 - T2 | 4.378 | 0.000 |
| T3 - T1 | 9.365 | 0.000 |



Questions 9-11

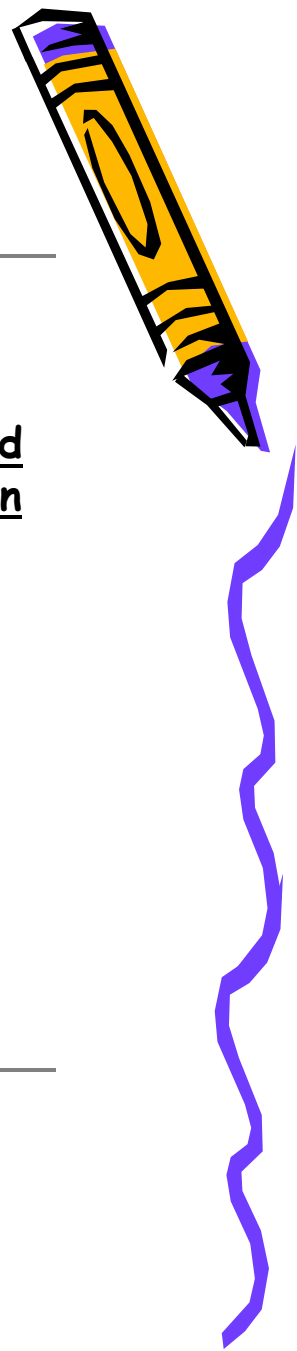


| | <u>t-stat</u> | <u>Sig (1-tailed)</u> |
|---|---------------|-----------------------|
| Q9 - Ability to identify specific controls to achieve effective/efficient operations | | |
| T2 - T1 | 8.078 | 0.000 |
| T3 - T2 | 4.377 | 0.000 |
| T3 - T1 | 9.950 | 0.000 |
| Q10 - Ability to identify specific controls to achieve reliability of financial reporting | | |
| T2 - T1 | 6.076 | 0.000 |
| T3 - T2 | 4.611 | 0.000 |
| T3 - T1 | 8.609 | 0.000 |
| Q11 - Ability to identify specific controls to achieve compliance with laws | | |
| T2 - T1 | 7.732 | 0.000 |
| T3 - T2 | 3.762 | 0.000 |
| T3 - T1 | 9.705 | 0.000 |



Student Perception of Video

| | <u>N</u> | <u>Mean</u> | <u>Standard Deviation</u> |
|---|----------|-------------|-------------------------------|
| Comfortable with watching an R-rated video | 90 | 91.4 | 17.0 |
| Language offensive | 90 | 8.5 | 18.1 |
| Sexually explicit content offensive | 90 | 14.6 | 26.1 |
| Appropriateness of video | 90 | 84.9 | 19.4 |
| Video helped in understanding importance of communicating code of conduct or ethics policy to employees | 90 | 84.9 | 19.1 |





Please send an email to
savage@calpoly.edu for a file
copy of the case

Thank you for attending our presentation!

