Accounting Practise Center

ACCA

Advanced Audit & Assurance (INT)

Super Final Revision Note

(SAMPLE)

Contents:

Introduction to the Revision and Exam

Format: Computer based exam, with 'Excel', and 'Word' functions given, along with multiple exhibits in each question.

Duration: 3 hours+15 minutes (195 min)

Exam summary: (All questions are compulsory)

- **Section A** – **one** question – 50 marks (with 40 technical marks and 10 professional marks)
  Professional marks:
    - <u>**Communication**</u>
    - Analysis and evaluation
    - Scepticism and judgement
    - Commercial Acumen
- **Section B** – **two** questions – 25 marks each (with 20 technical marks for each question and 5 professional marks for each question)
  Professional marks:
    - Analysis and evaluation
    - Scepticism and judgement
    - Commercial Acumen

Total marks: 100, with 50 passing marks

Time management: 2.4 min/marks (195 min/80 marks)

Questions in the exam:

Areas to be tested/Question	Technical marks	Professional marks
Section A – Q1 (50 marks) • Risks of Material Misstatements/Audit Risks • Business risks * • Audit procedures • Ethical and professional issues	… marks … marks 6 marks … marks	10 marks
Section B – Q2 (25 marks) • Ethics and practice management	… marks	5 marks
Section B – Q3 (25 marks) • Completion and reporting	… marks	5 marks

*Some students may not get the business risk question in the exam.

Useful links:

1. AAA's past exam questions:

https://www.accaglobal.com/gb/en/student/exam-support-resources/professional-exams-study-resources/p7/past-exam-papers.html

2. Technical articles:

https://www.accaglobal.com/gb/en/student/exam-support-resources/professional-exams-study-resources/p7/technical-articles.html

3. Examiner's reports:

https://www.accaglobal.com/gb/en/student/exam-support-resources/professional-exams-study-resources/p7/examiners-reports1.html

Revision style explained:

The revision of this paper will start by going through the tailored summary of knowledge applicable to AAA exam. Our tutors will then go through the recent past exam papers to make sure you are familiar with the recent exam style.

You will then need to practice these knowledge in the actual mock exam using the ACCA practice platform to further familiarise with the exam environment.

There will be appendix of the recent past exam questions which have been tested in each block of the revision. Block 1, 2 and 3 stands for the topics revision tailored to each big question in the AAA exam.

You will also need a copy of the recent past exam papers so that you can follow our lectures.

Exam technique:

In the AAA exam, examiner will expect quality in students' answer rather than quantity. Therefore, students are not expected to write too many points in this exam. Instead, students are expected to include different components in each paragraph in their answer. Generally, per the marking scheme, it will be 1 mark per point on average.

After years of experience of teaching AAA, we have summarised the approach we have been using to help you solve each type of AAA question.

Evaluate advantages (benefits) and disadvantages (drawbacks):

- **Step 1:** What – could be a sub-heading
- **Step 2:** Describe the benefit or drawbacks – with common sense.
- **Step 3:** Why this is a benefit or drawback – it helps or harms…
- **Step 4:** Case information – relate to the case.

Explain the impact:

....

Describe matters to be included in the tendering document:

…

Assess issues to be considered in the engagement:

- …

Explain reasons:

- …

Comparison question:

- **Step 1:** Your description

- …

Discussive question - examiner expects students to answer the question from both positive and negative perspectives:

- …

To evaluate ethical issues:

- ….

Explain reasons why analytical procedures are performed:

- ….
- **Step 4** – How the procedure helps with auditor, ie focus on these elements, design further procedures, stay alert during the audit.

Business risks – usually 2 marks/point, (with another 0.5 marks/trend or ratio calculation, but usually max of 2 marks in total for such calculation in a single question):

- **Step 1** – **What** – clues from the case – 0.5 marks
- ….

Audit risks (with detection risk) – usually 3 marks/point, with another max of 3 marks for materiality calculation for a 20-mark question (with 1 mark per materiality calculation), and 0.5 marks per trend or calculation (max of 2 marks in total):

For analytical procedures:

- **Step 1** – **What** – clues from the case
- ….

For other IFRS related items:

- **Step 1** – **What** – clues from the case
- …**Financial Statements (P/L, SFP)** and **what elements (assets, liabilities, income, expense)** to be **understated, overstated, under disclosure**.

Additional note – for new audit client, explain detection risk (difficulties in identifying potential material misstatements), and additional considerations regarding the opening balance to be audited.

Going concern assessment:

Step 1 – Clues from the case, ie changes in profitability, funding (short term and long term)

.....

Explain the reasons why matters need further investigation:

- **Step 1** – Potential impact (both sides such as decrease in revenue and costs)
- **…**

Professional marks (20 marks):

Section A – Q1: (4 marks being the communication marks and 6 marks for other professional skills marks)

- ….

Analysis and Evaluation: Q1, Q2 and Q3

- **Supporting calculations** – such as calculating ratios, and materiality level.
- **.....** - for example, understanding the basis of a provision and understanding how the audit team can gain ***sufficient and appropriate audit evidence (ISA 500 Audit Evidence)*** in the circumstances.
- **Conclusion from the analysis** – such as having proposed actions/responses, for example, obtaining further evidence regarding the accounting matter.
- **Evaluation** - ….

Scepticism: Q1, Q2 and Q3

- **A conclusion about ROMM/Audit risks (in Q1)** – Candidates should be prioritising the most significant risks first, and in a brief conclusion, justifying their decision.
- **Do not ….**
- **Sufficiency of evidence** – some questions may ask the candidates to review the audit work and evidence obtained during the engagement and assess whether it is sufficient to support a decision or information in an auditor's report.

Commercial Acumen: Q1, Q2 and Q3

- Cases may be coming from private or public sectors organisations.
- …., and impact on client's business)
- Acceptance of engagement – always t….information from the scenario.

Block 1: Revision on Risks

Q1 in the AAA exam will usually include a risk question, together with other areas in the syllabus. In the Block 1 revision, we will be focusing on risks with some tailored paragraph to be used in the exam.

Contents:

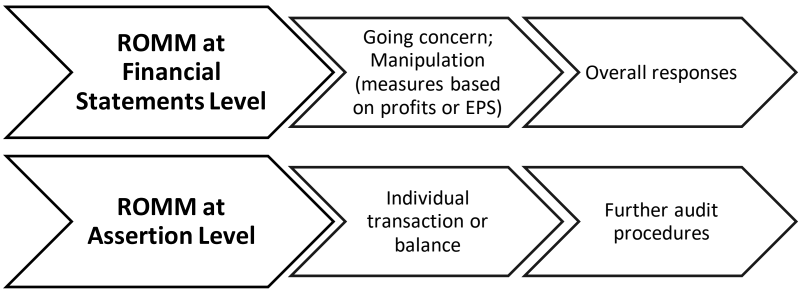
- *Revision of Business Risks*
- *Revision of and Risks of Material Misstatement (ROMM) and Audit Risks*
- *Inherent risk*
- *Control risk*
- *Detection risk*
- *Conclusion to be made: (Two paragraphs)*
- *Appendix: Examples from past exam paper*

Overview of ISAs on Audit Planning

ISA 200 Overall Objective of the Independent Auditor & the Conduct of an Audit in Accordance with ISAs

- …

ISA 330 The auditors' responses to assessed risks



- **Overall responses – for ROMM at Financial Statements level:**
  - ….
    1. Combined approach (combine with control tests and minimum substantive tests) – suited when ROMM is low.
    2. Substantive approach (full substantive tests) – suited when ROMM is high.
- **Specific responses – for ROMM at assertion level:**
  - ….
- **Documentation of overall and specific responses:**
  - Audit work at the risk assessment stage shall be documented including risks of material misstatements, overall and specific responses.

ISA 300 Planning an Audit of Financial Statements

Audit strategy - scope, timing and resources, and direction of the audit.

Audit plan -

1. Pre-designed audit plans (questionnaires and checklists);
2. Tailored audit plans (further audit procedures to respond to risk assessment)

Review plan - Hot review; Second partner review; Engagement Quality Control Review; Pre/Post Issuance Review.

ISA 315 Identifying and Assessing the Risks of Material Misstatement (Revised 2019)

Understand client:

1. Entity and environment
2. …..
3. Inherent risk factors:
    - High uncertainties – management estimates
    - High complexity - models and regulation
    - High subjectivity - multiple a/c treatments
    - High susceptibility - related parties (fraud)
    - Change - change of a/c policies and estimates

Identify and assess significant ROMM (high inherent risks):

1. Evaluate and test control system.
2. ….
3. Communicate with those charged with governance.

ISA 520 Analytical Procedures

1. ….
2. Ratios calculation

Review Stage (SHALL):

Objective: Help auditor reach a conclusion as to whether client's FS are in line with auditor's understanding

Way: Ratios calculation

Chapter 1: Revision of Business Risks

Per ISA 315 Identifying and Assessing the Risks of Material Misstatement (Revised 2019)

ISA 315

Risk assessment procedures and related activities

Understand client

<u>Risk assessment procedures</u>:
Analytical procedure
Enquiry
Inspection
Observation
Data analytics

<u>Related activities (Discussion among team members):</u>
Business risks information can also be shared among team members.

1. Entity and environment
Ownership
Business model
Environment
KPIs

2. Internal control system

3. Applicable financial reporting framework

4. Inherent risk factors
High uncertainties - mgt estimates
High complexity - models and regulation
High subjectivity - multiple a/c treatments
High susceptibility - related parties
Change - change of a/c policies and estimates

<u>Writing approach:</u>

Business risks – usually 2 marks/point, (with another 0.5 marks/trend or ratio calculation, but usually max of 2 marks in total for such calculation in a single question):

- **Step 1** – **What** – clues from the case – 0.5 marks
- **Step 2** – It **may** …(go wrong – use the case information), AND the **impact** (reduce profits or revenue, cash flows or liquidity problems, damage reputation due to non-compliance, problems in establishing a sound internal control system, drain on management's time and resources) – 1.5 marks

<u>Examples of Business Risks:</u>

<u>What</u>	**<u>May…</u>** **(***using business sense***)**	**<u>Impact…</u>**
Company sells regulated product (such as pet-related products)	**Eg,** animals should be stored in a safe and clean environment. May breach of regulation due to unable to meet standards.	**Impacts…:** • **Reputation risk** (impact on its supply chain, consider upstream suppliers and customers), ie bad publicity may impact adversely in its sales; suppliers may not be willing to supply products to company. • **Financial risk** (proportion of the product does not generate a profit or positive cash flows)
Inexperienced staff being employed	**Eg,** staff should be appropriately qualified and experienced, ie poor service may be provided.	**Impacts…:** reputation risk, legal consequences.
Insufficient training of staff	**Eg,** staff may injure themselves or an animal if it's not properly handled, ie poor service may be provided.	**Impacts…:** reputation risk – lost customer goodwill, legal consequences due to injury caused to customers.
…	…	…
…	…	…

Chapter 2: Revision of and Risks of Material Misstatement (ROMM) and Audit Risks

Per ISA 200 Overall Objective of the Independent Auditor & the Conduct of an Audit in Accordance with ISAs

Audit risks = ROMM x Detection Risk

Overall exam approach for ROMM/Audit Risk:

- **Paragraph 1:** Explain the risk.
- **Paragraph 2:** To demonstrate 'evaluation' and 'prioritisation' skills in your answer:
  - **High uncertainties – management estimates**
  - **High complexity - models and regulation**
  - **High subjectivity - multiple a/c treatments**
  - **High susceptibility - related parties (fraud)**
  - **Change - change of a/c policies and estimates**
  - **Management is not aware this issue – such as fail to understand the needs to follow corporate governance or other regulations**
  - **There might be other areas that controls are poor – given that the internal control of this area is weak**
  - **Responses from auditors (particularly useful for inherent risks): (ISA 300)**

    Overall responses – for ROMM at Financial Statements level:

    - The use of more experienced staff.
    - Greater supervision, ie more involvement with audit partner.
    - Emphasize and maintain professional scepticism during the audit, ie consider business reasons for significant transactions; inspect all year end journal entries; challenging assumptions made by management in determining accounting estimates.

    Specific responses – for ROMM at assertion level:

    - Analytical procedures and tests of details (based on their nature (error or fraud), extent (material or pervasive) and timing of procedures to be carried out) to respond to the assessed ROMM at the assertion level.
  - **Using audit evidence obtained in previous audits:**
    - If there are changes in the current audit or this is a new audit client – all control systems should be tested.
    - If there are no change in the control system – external auditors should still perform some control tests at each audit, and use audit evidence from previous audits (if previous audit shows that the control system was good). However, auditors should at least test the entire system once in every third year. (ISA 330 para. A37)

Chapter 3: Inherent risk

Type 1 Inherent risk: General movement (Analytical Procedures)

Points	**Implications**	**Why inherent risk**	**Evidence from the case**
Unlisted company. This can also be applied to companies with going concern problems, liquidity problems.	Pressure on financial results (in order to pay high dividends, or support its aggressive expansion plan)	So that earnings management techniques may be used by management.	Projected profit before tax is higher than previous year's figures (indicate operating expenses are understated)
Projected revenue or profits of the group is different from those in each segment	The trend differences can be explained by: • Revenue/profits have been misclassified between segments. • Whether circumstances are factored in the projection by management, such as potential withdrawal of licences. (applies to highly regulated industries)	Projected results are over-optimistic (aggressive earnings management)	Revenue is projected to increase by 14%, with 44% increase in operating profit, and 25% increase in PBT – imply expenses may have been understated or misclassified.
Major shareholder plans to sell shares held	Management bias to maximise sale price.	By overstating profits, assets and revenue.	
…			

Type 2 Inherent risk:

Audit risks (with detection risk) – usually 3 marks/point, with another max of 3 marks for materiality calculation for a 20-mark question (with 1 mark per materiality calculation), and 0.5 marks per trend or calculation (max of 2 marks in total):

For analytical procedures:

- **Step 1** – **What** – clues from the case

For other IFRS related items:

- **Step 4** – There is a **risk** that the IFRS requirement is not followed resulting in **What Financial Statements (P/L, SFP)** and **what elements (assets, liabilities, income, expense)** to be **understated, overstated, under disclosure**.

…

Additional note – for new audit client, explain detection risk (difficulties in identifying potential material misstatements), and additional considerations ……..

Examples of type 2 ROMM/Audit Risks: (Common IFRS to be tested)

IFRS number	Case information	IFRS requirement (Step 3)	Impact on accounts (Step 4)
Revenue and profits trends	Revenue increase in % is less than profits increase in %.	Revenue may be misclassified into different segments (evidenced by different segment revenue % increase is different from the overall revenue increase %). Operating expenses may have been understated or misclassified so that profits % increase is not in line with revenue %.	
Effective tax %	The % in this year is lower than that in the last year.	Risk that profit treatment is incorrect, ie the use of general provisions to smooth profits, or to treat owner manager's drawings as expense rather than dividends.	
IAS 1 Presentation of FS	Several indicators indicating company having risks of not operating as a going concern entity.	Management should provide a note to the account discussing any material uncertainty over company's ability to continue as a going concern.	Risk of under disclosure.
IAS 2 Inventories	If industrial action continues, customers may cancel their orders leading to inventories can not be sold.	Inventories should be measured at the lower of cost and net realisable value.	Risk that inventories are not written to net realisable value leading to overstatement of inventories and profits.
IAS 12 Income taxes	Finance director refuses to provide for deferred tax because he believes the asset will not be disposed of in the future.	Deferred tax is recognised based on temporary differences between carrying value of assets and	Risk that liabilities and expenses are understated if this is the deferred tax liability. Assets and profits are

		liabilities with their tax base.	understated if this is the deferred tax asset.
IAS 16 PP&E	Upgrade and maintenance costs. Component depreciation	Capital expenditure should be recognised as PP&E asset, ie expenditure in purchasing PP&E and increase PP&E capacity. Revenue expenditure such as maintenance to maintain current capacity of PP&E should be expensed. Each part of PP&E with a significant cost should be depreciated separately.	Risk that capital and revenue experience is not separated resulting in misstatement in assets and profits. Risk that each component is not depreciated separately resulting in misstatement in depreciation expenses and PP&E value.
IAS 20 Gov Grants	Grant is awarded, where mgt decides to recognise grant as income in the P/L although no expenditure has incurred.	Grants are recognised in P/L over the periods matching with the entity recognising expenses.	If the grant is recognised as income too early, this overstates profits and understates liability.

………………

Chapter 4: Control risk

Points	**Implications**	**Why control risk**
Not required to follow corporate governance (unlisted company or where the local stock exchange does not have such requirements): [Small finance or internal audit team (lack independence as they may report directly to the Finance Director).]	Scope of their work is limited – lack resources. Recommendations may be ignored by the management.	Increases control risk as there might be high scope for errors in finance reporting processes (or for deliberate manipulation of balances and transactions).
Cyber-security attack	If group internal audit team had not responded to these risks, attacks may be on other areas including financial reporting processes. This is likely to result in corrupted data or loss of data in its system (such as sales system if client details are linked with accounting system), or may lead to penalty charged by relevant authority (provision accounting per IAS 37 applies).	May indicate audit committee has not delegated responsibilities appropriately to the internal audit team regarding this issue. Leading to misstated sales revenue.
Payment of expenses in cash (such as payroll payment in cash)	A risk that not all wages payments are recorded in the account. Incomplete deductions are made for employees paid in cash.	Cash wages paid out of cash are unrecorded; Cash sales may be used as wages payment, leading to sales are understated. Increases compliance risk, and liabilities for unpaid employee tax.
Owner managed business	No distinction between owner and manager leading to management override over controls in financial reporting.	This means control environment is weak and it results in higher risks of fraud and

		errors in accounts.
……….		

Chapter 5: Detection risk

Proforma paragraph to learn:

- This is the first year client is audited by our firm, this increases detection risk because our firm does not have experience with the client and this is harder to detect material misstatements.
- ….

Chapter 6: Conclusion to be made: (Two paragraphs)

The first paragraph:

The ROMM (or Audit Risk) has been ordered by considering the effect and chances of such risks taking place. For example:

Risk 1 – high risk (high ROMM or audit risk) because: (pick one of the following reasons)

- High uncertainties - mgt estimates
- High ……….

Risk 2 – Low risk (low ROMM or audit risk) because: (pick one of the following reasons)

  - ………….

The second paragraph:

Responses to assessed risks *(Pick one from the below points):*

  - ………

Appendix: Examples from past exam paper:

Conclusion

The risks of material misstatement have been ordered with regard for the estimated magnitude of any misstatement and the likelihood of such a misstatement occurring. For example, the purchase of the stores for refurbishment is the highest quantitative area which is deemed to be at risk of material statement, as it is newly occurring in the year and there is a significant risk of management bias in the classification. Similarly, revenue recognition of the annual pet healthcare plans is

estimated to affect up to 10% of revenue and could also impact prior year figures, resulting in a high risk prioritisation. In contrast, foreign exchange movements are carried out as standard by many companies and should be at lower risk of material misstatement than the other risks as outlined above.

From Sept 2022 Q1

Conclusion

The risks of material misstatement have been ordered with regard to the estimated magnitude of any misstatement and the likelihood of such a misstatement occurring. For example, the warehouse fire is the highest quantitative area which is deemed to be at risk of material misstatement, is newly occurring in the year and there is a significant risk of management bias in the measurement of the impairment. Similarly, the joint venture with Durian Co is quantitatively material and a fundamental change in both operation and accounting for Winberry Co, so deemed high risk. In contrast, the eco-friendly delivery vans are borderline to the stated threshold of materiality and therefore at lower risk of material misstatement than the other risks as outlined above.

In conclusion, Winberry Co has a significant number of audit and business risks which could result in material misstatement in the financial statements. Quince & Co should reassess their assessed level of planning materiality to ensure that the risk profile of the company is adequately reflected in the level of testing planned. The audit should be planned to assign highly competent staff for the high risk, judgemental areas of the audit such as the impairment of the fire damaged warehouse.

Tutorial note: *Credit can be awarded where the candidate assumes that the delivery pass revenue does not accrue evenly.*

From Dec 2022 Q1

Typical requirements in Risk Question (usually in Q1):

Dec 2022
(c) Impact of outsourcing the credit control function (1 mark per point discussed) - 7 marks
(d) Audit procedures for holiday pay obligation (1 mark per point) - 7 marks
Sept 2022
(c) Audit procedures on classification of investment, ie subsidiary or associate etc. (1 mark per point) - 7 marks
(d) Auditor's responsibilities regarding compliance with law and regulations (1 mark per point) - 7 marks
March/June 2022
(c) Money laundering - 8 marks (1 mark per point)
(d) Acceptance procedures - 8 marks (1 mark per point)
Sept/Dec 2021
(c) Audit procedures on purchase of building (PP&E) - 8 marks (1 mark per point)
(d) Ethical issues - conflict of interest, risks of valuation of shares, confidentiality issues, self review threats regarding audit of investment – 8 marks (1 mark per point)
March/June 2021
(c) Audit procedures on fair value changes - 6 marks (1 mark per point)
(d) Audit planning implications including ethics (provide additional service on KPI) - 10 marks (1 mark per point)
Sept/Dec 2020
(c) Additional service to provide advice on social and environmental information – 10 marks (1 mark per point)
(d) Audit data analytics – 5 marks (1 mark per point)

Block 2 Revision on Big Question Two

Question 2 in the AAA exam will usually involve ethics and practice management questions to be tested. Sometimes, other assignments such as PFI, due diligence, forensic audit, social and environmental audit as well as audit of public sector organisations may also come up.

Common questions to be tested:

1. Ethics
2. Practice Management such as acceptance procedures, Quality Control, Tendering, Advertising
3. Other requirements such as examinable of PFI, audit procedures on specific items, or other ISAs requirements.

Contents:

The rest of the content will only be shown in the official package….