



Examiner's report

AAA Advanced Audit & Assurance

March 2019

The examining team share their observations from the marking process to highlight strengths and weaknesses in candidates' performance, and to offer constructive advice for future candidates.

General Comments

Overall, candidates appeared to be better prepared for the March 2019 examination and demonstrated improved exam technique compared to recent examination diets. There was less indication of time pressure as a result of poor technique and in general, candidates provided answers which addressed the requirements rather than simply giving a discussion of irrelevant points. However, the ability to apply knowledge appropriately rather than simply stating a learnt point is still not demonstrated by a majority of candidates. Those candidates who did demonstrate such skills were able to score well and secure a clear pass mark and many candidates performed well, particularly on Question one and Question three.

The examination consisted of two sections. Section A consisted of a 50-mark compulsory case study style question and section B consisted of two compulsory questions of 25 marks each.

Section A tested the candidates' ability to evaluate risk at the planning stage of the audit alongside audit procedures, which should be performed on two specific areas. Question two in Section B focussed on completion and reporting and Question three, covered acceptance of other assignments, ethics, information the auditor would require to perform the assignment and the procedures to be performed.

The examination requires a sound understanding of the syllabus, while building on assumed knowledge gained from both Audit and Assurance (AA) and Strategic Business Reporting (SBR). Candidates should note that the accounting standards listed with the SBR syllabus are also examinable in AAA. Marks are awarded at AAA level for application of the knowledge to a given scenario, where candidates demonstrate an understanding of the issues presented.

Appropriate exam technique should be developed using question practice for the skills of time management, reading relevant technical articles and exam technique articles published on ACCA's website and reading past Examiner's reports for each sitting.

The examination did not appear to be particularly time pressured with most candidates attempting and completing all requirements. Overall candidates appeared to have correctly interpreted the majority of question requirements.

From a technique perspective, candidates who started the examination with their strongest question, tended to score good marks early and set themselves up for a good performance overall. It is recommended that candidates continue to take note of the marks available per question and tailor responses to the time available to ensure they leave enough time to attempt and answer all questions.

Specific Comments

Section A

Question One

This question was a compulsory 50-mark case study consisting of five parts and focussed on the planning phase of the audit of an existing family owned business operating in a specialised industry and also referred to the use of an auditor's expert to provide evidence regarding a valuation.

There are four professional marks available in Question One, with one mark awarded for each of the following:

- Suitable report style heading
- A brief introduction
- A structured, well presented answer
- Clarity of explanations

All candidates should be capable of achieving a minimum of three professional marks. It should be noted that a brief introduction is required, and time should not be spent writing a half-page introduction or a lengthy conclusion. For a structured, well presented answer, simple headed paragraphs are enough to score these marks. Candidates need not be concerned with spending time underlining or numbering headings, so long as it is clear which question is being attempted. For clarity marks, the marker will consider whether they understood the candidate's response and the discussion satisfied the question requirement. Candidates will not be penalised for poor spelling or grammar.

Requirement (a), for 20 marks asked candidates to evaluate the risks of material misstatement arising from the scenario. This was generally well answered with the majority of candidates able to follow a structured approach of calculating materiality, stating the relevant accounting rule applied to the specifics of the scenario, describing the risk that arose and the resulting impact on the financial statements. It was pleasing to see that fewer candidates diverted to answering from a business risk perspective, but where this did occur, no marks could be awarded. Candidates are reminded to read the question requirements carefully and ensure they are answering the question set.

As in previous sittings, the examining team highlighted within the scenario that there was an internally generated brand which had been accounted for correctly and should not be recognised within the statement of financial position. A significant number of candidates still described this as a risk of material misstatement, clearly wasting time on an area that was not a risk. Several candidates who did identify that the brand was correctly accounted for, continued to describe how the internally generated brand, while not recognised should be tested for impairment. This

demonstrates an area of weakness regarding basic financial reporting knowledge. Candidates would benefit from refreshing their knowledge on reporting standards for intangible assets and taking note of the guidance provided in the scenario by the examining team.

A further area of weakness was noted with regards to the family owned business having a lack of corporate governance, audit committee and lack of controls leading to a risk of material misstatement. A significant number of candidates discussed the risk in very general terms, not linking any risk of management bias to the specifics of the question and therefore failed to score what would be regarded as standard risk marks that are easily achievable.

Some other common issues noted in candidate answers for RoMM included:

- Discussing audit procedures to be performed which did not meet the question requirement and therefore no credit awarded. If required, this will normally form a separate requirement within the question and should be answered where applicable.
- Including detailed definitions of audit risk or risks of material misstatement. The briefing notes are prepared for the audit engagement partner and this type of information is not required.
- Lack of basic knowledge of double entry and assumption that every double entry has one under and one overstatement e.g. if liabilities are understated, then expenses must be overstated.
- Lack of correct direction of risk or not being precise in terms of the financial statement impact, e.g. “liabilities will be under/overstated”.

Requirement (b), for 10 marks required candidates to design principal audit procedures for specific areas of risk identified within requirement (a). Candidate answers were weaker than the previous sitting in December 2018, with many candidates providing procedures which referred to a weak information source or poorly explained purpose and were often not detailed enough to score full marks.

Some common issues noted in candidate answers for this requirement included:

- Focussing on board meeting minutes where this was not an appropriate source for a procedure based on the requirement.
- Procedures which simply stated “obtain relevant documents” which is not specific or detailed enough to score full marks.
- Requests to obtain written representations from management without being specific regarding what should be confirmed, or were not relevant to the area for which procedures were being performed.

The final requirements required candidates to discuss considerations for the use of an auditor’s expert and for candidates to discuss the audit implications and actions to be taken, regarding professional and ethical issues present in the scenario.

There were many strong answers in response to considerations regarding the use of the auditor’s expert, but some candidates failed to address the level of detail required in line with ISA 620 Using the Work of an Auditor’s Expert. Weaker answers focussed on practical considerations, such as

whether the expert had the time and resources to perform the work rather than the key areas of the standard such as objectivity, competence, scope of work and relevance of conclusions.

It is disappointing to note that answers to ethics requirements continue to be weak, with many candidates not sufficiently justifying how the threat has arisen in line with the specifics of the scenario or the implication that arises for the auditor. Both considerations are needed in order to score marks. Candidates undoubtedly know the name of the ethical threats and have an assumed knowledge from previous studies at AA yet continue to score poorly at AAA level. Candidates would benefit from reading the exam technique article published on ACCA's website for detailed guidance on how to discuss ethical threats.

Section B

Question Two

This question was a 25-mark compulsory question which focussed on completion and reporting and was in two sections.

Candidates were asked for discussion of the evidence expected to be found on the audit file and the impact on the auditor's report relating to specific matters detailed in the scenario. Candidates were also asked to critique an extract of a draft auditor's report.

The majority of candidate answers were extremely disappointing, and generally reflect a weak knowledge of the financial reporting linked to SBR. Requirements regarding the impact on the auditor's report are consistently answered poorly, demonstrating a lack of knowledge of the type of opinions to be issued by auditors in specific circumstances. Overall answers were either long but without any clarity or were vague and incorrect. There remain a number of candidates who continue to show a lack of understanding and discuss the use of an emphasis of matter paragraph as an alternative to modifying an opinion, or that a material uncertainty related to going concern section will also be included when an opinion has been modified.

Reporting is not an area of the syllabus that is particularly difficult and with a structured approach and an understanding of opinions and reporting, candidates should be able to score high marks. Candidates would benefit from reading the exam technique article published on ACCA's website for detailed guidance on how to approach and answer reporting style questions.

For the requirement relating to the critique of the extract of the auditor's report, candidates were not expected to discuss what would or would not be present in a full report. Where candidates discussed, for example, "the signature of the partner is missing" or "responsibilities of the auditor are missing", this was not relevant to the requirement, which asked candidates to specifically critique the extract as presented. Discussion of given extracts of auditor's reports, again, should follow a structured approach and practising questions of this nature should allow candidates to score strong marks in these requirements.

Question Three

This question was a 25-mark compulsory question which focussed on acceptance of other non-assurance assignments specifically a due diligence review, ethics, information the auditor would require to perform the due diligence work and the procedures to be performed.

The requirement regarding the considerations prior to accepting the due diligence review was answered well, but as mentioned above the discussions relating to ethics in many instances fell short of scoring full marks.

The quality of answers for Question three was generally of a good standard and candidates were able to demonstrate application of their knowledge to the specifics of the scenario resulting in a well-developed answer.

Conclusion

Overall candidates appeared better prepared for the examination in terms of their knowledge and understanding of key areas of the syllabus, exam technique and time management. Section A was generally answered well, particularly the risk element of the question.

However, many candidates are continuing to show a lack of what should be assumed knowledge for ethics and continue to produce answers of a standard below what is expected at AAA level.

A large number of candidates also demonstrate a weak understanding of reporting and fail to score the level of marks available. Candidates are urged to learn and obtain an understanding of the proper use of audit opinions and impact on the auditor's report regarding given matters, and to read the exam technique articles that are published on ACCA's website. These provide detailed guidance on how to approach and answer questions surrounding specific topic areas of ethics, reporting and evidence/procedures.

Candidates need to spend enough time studying to acquire sufficient knowledge of all areas of the syllabus and answer plenty of exam-standard questions to develop their application skills. Candidates must be able to identify what is important in scenarios and respond fully to requirements.