



Examiner's report

AAA Advanced Audit & Assurance

June 2019

The examining team shares 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 reasonably prepared for the June 2019 examination. The examination did not appear to be particularly time pressured with most candidates attempting all requirements. Overall candidates gave well developed answers to Question one, but there was some evidence of candidates misinterpreting the requirements for Question two and Question three and therefore performing lower than expected. The lack of knowledge regarding the requirements for auditor's reports was a particular factor in the poor performance noted on Question two.

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 business risk and risk of material misstatement at the planning stage of the group audit, alongside ethical issues relevant to the group audit and a requirement in respect of procedures to be performed on a specific related party transaction detailed within the question scenario. Question two in Section B focused on completion and reporting, with a critique of an extract of an auditor's report along with matters to be reported to those charged with governance and reasons for inclusion in the report. Question three, covered a discussion question surrounding the exposure draft on ISA 540 *Auditing Accounting Estimates and Related Disclosures*, included in the examinable documents, along with evaluating accounting treatment and difficulties encountered when auditing estimates and the procedures to be performed to gather evidence relating to the described estimates.

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 within 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.

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 four parts and focused on the planning phase of the group audit of a new listed client.

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 12 marks asked candidates to evaluate the business risks arising from the scenario in the question, which focused on a new audit client. The Group was a listed entity and a large digital subscription television company. It was pleasing to see that most candidates focused on the risks arising from the scenario and avoided speculative or generic risks.

There were two marks available for each business risk. It should be noted that risk factors can be described in various ways in order to attract credit. The scenario detailed a significant risk surrounding the revocation of the company's broadcasting licence. Marks could be awarded for development of the risk from a risk of non-compliance and the licence being revoked or that a fine may be imposed which could lead to going concern implications.

As is usual with Question one, marks were available in the question for calculating trends such as the percentage movement in revenue or the extrapolated revenue figure or EBITDA. Many candidates failed to identify this and therefore did not calculate any relevant trends and were unable to gain these calculation marks. It was disappointing to see those who did identify the opportunity to extrapolate the information also went onto extrapolate total assets which would not be appropriate.

The scenario detailed that the Group had obtained a stock market listing 15 years ago. Risks surrounding failure to adhere to corporate governance or listing rule requirements were deemed as non-significant, based on the length of time the Group had been listed.

Requirement (b), for 18 marks asked candidates to evaluate significant 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.

The examining team highlighted within the scenario that the Group provided a guarantee for a loan taken out by a connected company. Several candidates incorrectly determined that the loan should be recognised within the statement of financial position for the Group as a liability with finance charges being recognised within the statement of profit or loss. A significant number of candidates described this as a risk of material misstatement, clearly wasting time on an area that was not a risk and missed the point that it should only be disclosed as a contingent liability.

A further area of weakness was noted with regards to discussion of detection risk due to the company being a new audit client. Credit is not awarded for detection risks due to lack of knowledge of the client, for a risk of material misstatement requirement. Candidates discussing detection risks are failing to answer the question requirement as this would only be appropriate for an audit risk question. This demonstrates candidates identifying from the scenario “a new audit client” and discussing rote learnt risks which do not answer the requirement.

Where the examining team highlight a Group was formed 35 years ago with no subsequent changes, discussion of risks of material misstatement surrounding the calculation of goodwill on acquisition are deemed irrelevant and would not achieve credit.

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 could be awarded. If required, this will normally form a separate requirement within the question and should be answered where applicable.
- Lack of basic knowledge of IAS® 28 *Investments in Associates*, where candidates did not appreciate that significant influence can be present with less than 20% shareholding
- Several candidates appear to have only a brief overview of the relevant standards without sufficient knowledge of the underlying principles.

Requirement (c), for six marks required candidates to discuss ethical issues relevant to the details given in the scenario. Candidate answers were stronger than in previous sittings for the description of the ethical threat and the implication to the auditor, yet many candidates failed to identify the client was listed and therefore discussions surrounding specific safeguards which were only suited to non-listed entities were inappropriate. Candidates are reminded that they need to have a good understanding of the Ethical guidelines and how these are often tailored to reflect the type of entity.

The final requirement required candidates to discuss the difficulties in the identification of related parties and to design specific procedures to be performed surrounding a transaction given in the scenario. Generally, this was answered well as to why it is difficult to identify related parties but many candidates only provided generic procedures which were not specifically tailored to the context of the scenario. Candidates would be advised to read the requirement carefully to ensure the answer given is relevant and not too generic to avoid losing marks, which would be easily achievable.

Section B

Question Two

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

Requirement (a) for 10 marks, asked candidates to critically appraise an extract from an auditor's report which had been incorrectly prepared and required amendment.

The majority of responses were extremely disappointing and generally reflects weak knowledge of auditor reporting requirements. There remain a number of candidates who continue to show a lack of understanding of basic ISA requirements such as incorrectly suggesting that an unmodified opinion should have 'unmodified' in the title of the opinion or that a material uncertainty related to going concern should be included within an emphasis of matter paragraph.

Many candidates suggested that the use of "we believe" in the auditor's report is not appropriate wording, or that the use of "in our opinion" suggests that the auditor is not independent from the client and therefore a familiarity threat is present. This demonstrates a significant lack of understanding of auditor's reports and ISA 700 *Forming an Opinion and Reporting on Financial Statements*.

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.

Candidates would benefit from increased knowledge of ISA 700, and in particular should review the appendices which show real examples of auditor's report and typical wording which is appropriate.

Requirement (b) for 15 marks, required candidates to discuss, along with reasons for discussion, specific matters raised in the scenario which should be reported to those charged with governance. Generally, candidates identified the "matters to be included" and used an approach of calculating the materiality of the issue, discussing the relevant accounting standard and how the matter had been dealt with incorrectly. However, candidates were vague on why matters should be included within a report to those charged with governance and continued to answer the question as if it were asking about the impact on the audit opinion. This demonstrates a lack of understanding of the question requirement by a number of candidates.

Question Three

This question was a 25-mark compulsory question which focused on the discussion of a published exposure draft and evaluation of accounting treatment for specific estimates given in the question scenario along with audit procedures to be performed.

Requirement (a) for 8 marks, required candidates to discuss accounting estimates as being an area of high risk and the reasons for the development of the exposure draft. Overall candidates had a good attempt at this requirement, and candidates that had read the article written by the examining team had the potential to score highly.

Requirement (b) for a total of 17 marks, was split into three sections and required candidates to evaluate the accounting treatment of three estimates given in the scenario.

A large number of candidates demonstrated a weak understanding of the SBR syllabus and scored very poor marks. It was disappointing to note a lack of understanding of provisions. Only a limited number of candidates correctly stated the rule under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, in relation to where the effect of the time value of money is material the provision should be recognised at present value. There was a clear indication in the question that this was relevant and it was disappointing that more candidates did not identify this.

The quality of answers for Question three was generally of a weaker standard and candidates were not able to demonstrate application of their knowledge of SBR in an audit context to the scenario.

Conclusion

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

A large number of candidates demonstrated a weak understanding of reporting and failed to score many of the marks available. Candidates are urged to learn and obtain an understanding of the proper use of audit opinions and the content and form of auditor's reports. Candidates are urged to obtain an understanding of ISA 700 and to read the exam technique articles which are published on ACCA's website regarding reporting style questions. These provide detailed guidance on how to approach and answer questions surrounding specific topic areas relevant to Advanced Audit & Assurance.

Candidates need to ensure they have a good understanding of SBR and be mindful that the full SBR syllabus is relevant and could be tested, where applicable, within Advanced Audit & Assurance.

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 requirement.

