

# Foundations in Audit

## (FAU)

### December 2017 and June 2018

This syllabus and study guide is designed to help with teaching and learning and is intended to provide detailed information on what could be assessed in any examination session.

#### THE STRUCTURE OF THE SYLLABUS AND STUDY GUIDE

##### Relational diagram with other papers

This diagram shows direct and indirect links between this paper and other papers preceding or following it. Some papers are directly underpinned by other papers. These links are shown as solid line arrows. The links between papers where there is only an indirect link and no required underpinning are shown as dotted line arrows. The relational diagram therefore indicates where you are expected to have underpinning knowledge and where it would be useful to review previous learning before undertaking study.

##### Overall aim of the syllabus

This explains briefly the overall objective of the paper and indicates in the broadest sense the capabilities to be developed within the paper.

##### Main capabilities

This paper's aim is broken down into several main capabilities which divide the syllabus and study guide into discrete sections.

##### Relational diagram of main capabilities

This diagram illustrates the flows and links between the main capabilities (sections) of the syllabus and should be used as an aid to planning teaching and learning in a structured way.

##### Syllabus rationale

This is a narrative explaining how the syllabus is structured and how the main capabilities are linked.

The rationale also explains in further detail what the examination intends to assess and why.

##### Detailed syllabus

This shows the breakdown of the main capabilities (sections) of the syllabus into subject areas. This is the blueprint for the detailed study guide.

##### Approach to examining the syllabus

This section briefly explains the structure of the examination and how it is assessed.

##### Study Guide

This is the main document that students and learning and content providers should use as the basis of their studies, instruction and materials respectively. Examinations will be based on the detail of the study guide which comprehensively identifies what could be assessed in any examination session. The study guide is a precise reflection and breakdown of the syllabus. It is divided into sections based on the main capabilities identified in the syllabus. These sections are divided into subject areas which relate to the sub-capabilities included in the detailed syllabus. Subject areas are broken down into sub-headings which describe the detailed outcomes that could be assessed in examinations. These outcomes are described using verbs indicating what exams may require students to demonstrate, and the broad intellectual level at which these may need to be demonstrated (\*see intellectual levels below).

##### Learning Materials

For information about ACCA's Approved Learning Partners - content, please go ACCA's Content Provider Directory.

The Directory also lists materials by Subscribers, these materials have not been quality assured by ACCA but may be helpful if used in conjunction with approved learning materials. You will also find details of Examiner suggested Additional Reading which may be a useful supplement to approved learning materials.

ACCA's Content Provider Directory can be found here –

[http://www.accaglobal.com/learningproviders/alpc/content\\_provider\\_directory/search/](http://www.accaglobal.com/learningproviders/alpc/content_provider_directory/search/).

Relevant articles will also be published in Student Accountant.

## LEVEL OF ASSESSMENTS – INTELLECTUAL DEMAND

ACCA qualifications are designed to progressively broaden and deepen the knowledge and skills demonstrated by the student at a range of levels on their way through each qualification.

Throughout, the study guides assess both knowledge and skills. Therefore a clear distinction is drawn, within each subject area, between assessing knowledge and skills and in assessing their application within an accounting or business context. The assessment of knowledge is denoted by a superscript<sup>K</sup> and the assessment of skills is denoted by the superscript<sup>S</sup>.

## VALUE OF ASSESSMENTS – EDUCATION RECOGNITION

ACCA seeks to enhance the education recognition of its qualifications on both national and international education frameworks, and with educational authorities and partners globally. In doing so, ACCA aims to ensure that its qualifications are recognized and valued by governments, regulatory authorities and employers across all sectors. To this end, ACCA qualifications are currently recognized on the education frameworks in several countries. Please refer to

[www.accaglobal.com/en/discover/public-value/education-learning/recognition-acca.html](http://www.accaglobal.com/en/discover/public-value/education-learning/recognition-acca.html)

for further information.

## GUIDE TO EXAM STRUCTURE

The structure of examinations varies within and between modules and levels.

The FIA examinations contain 100% compulsory questions to encourage candidates to study across the breadth of each syllabus.

All FIA examinations are assessed by two-hour paper based and computer based examinations.

The pass mark for all FIA examination papers is 50%.

## GUIDE TO EXAMINATION ASSESSMENT

ACCA reserves the right to examine anything contained within any study guide at any examination session. This includes knowledge, techniques, principles, theories, and concepts as specified.

For the financial accounting, audit and tax papers, except where indicated otherwise, ACCA will publish *examinable documents* once a year to indicate exactly what regulations and legislation could potentially be assessed within identified examination sessions.

Examinations regulation *issued* or legislation *passed* on or before 31<sup>st</sup> August annually, will be Examinable from 1<sup>st</sup> September of the following year to 31<sup>st</sup> August of the year after that. Please refer to the examinable documents for the paper (where relevant) for further information.

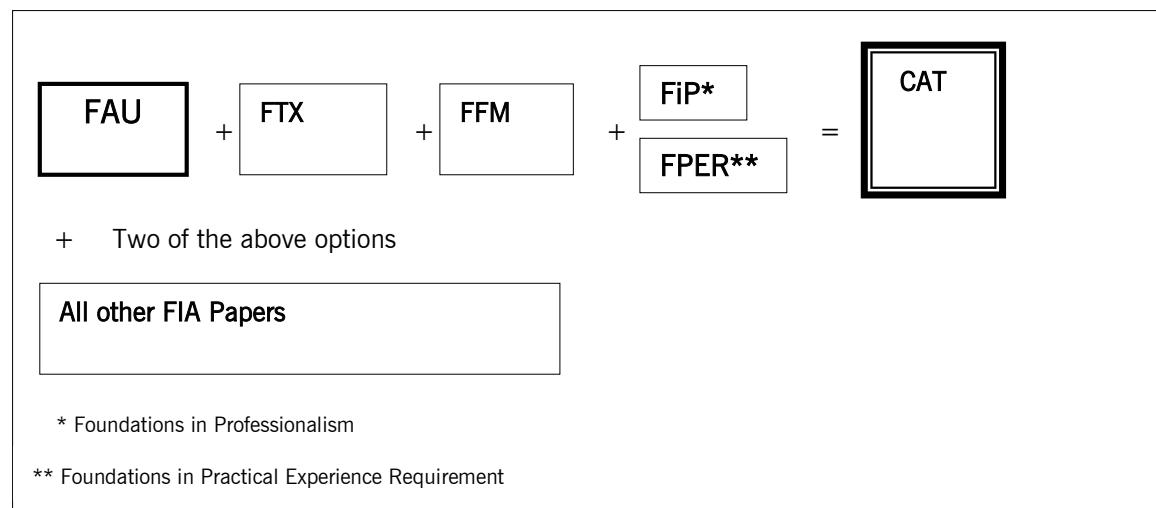
Regulation issued or legislation passed in accordance with the above dates may be examinable even if the *effective* date is in the future. The term issued or passed relates to when regulation or legislation has been formally approved.

The term effective relates to when regulation or legislation must be applied to entity transactions and business practices.

The study guide offers more detailed guidance on the depth and level at which the examinable documents will be examined. The study guide should therefore be read in conjunction with the examinable documents list.

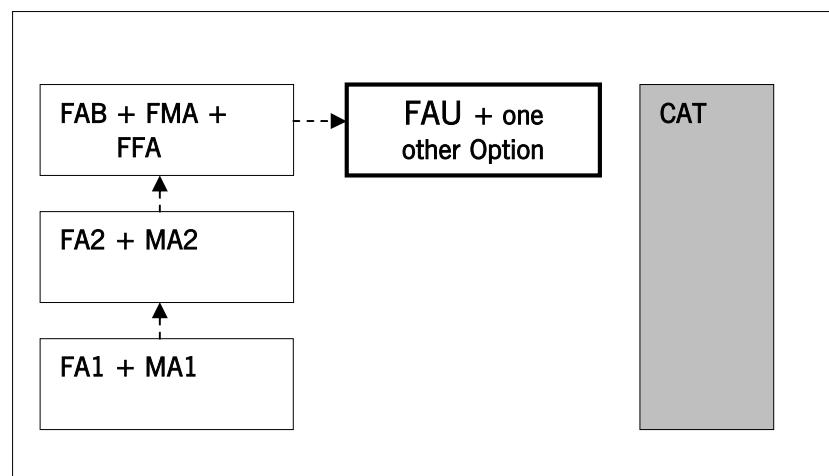
# Qualification structure

The Certified Accounting Technician (CAT) Qualification consists of nine papers which include seven of the FIA examination papers, at all three levels, plus two examinations from three of the specialist options papers. The CAT qualification also requires the completion of the Foundations in Professionalism (FiP) module and 12 months relevant work experience, including the demonstration of 10 work based competence areas. Exemptions can be claimed from a maximum of the first four FIA papers for relevant work experience.



## Syllabus structure

The CAT syllabus is designed at three discrete levels. To be awarded the CAT qualification students must either pass or be exempted from all nine examinations including two specialist options papers. Exemptions based on relevant work experience can be claimed from up to the first four FIA papers.



# Syllabus

## AIM

To develop knowledge and understanding of the principles of external audit and the audit process and technical proficiency in the skills used for auditing financial statements.

## RATIONALE

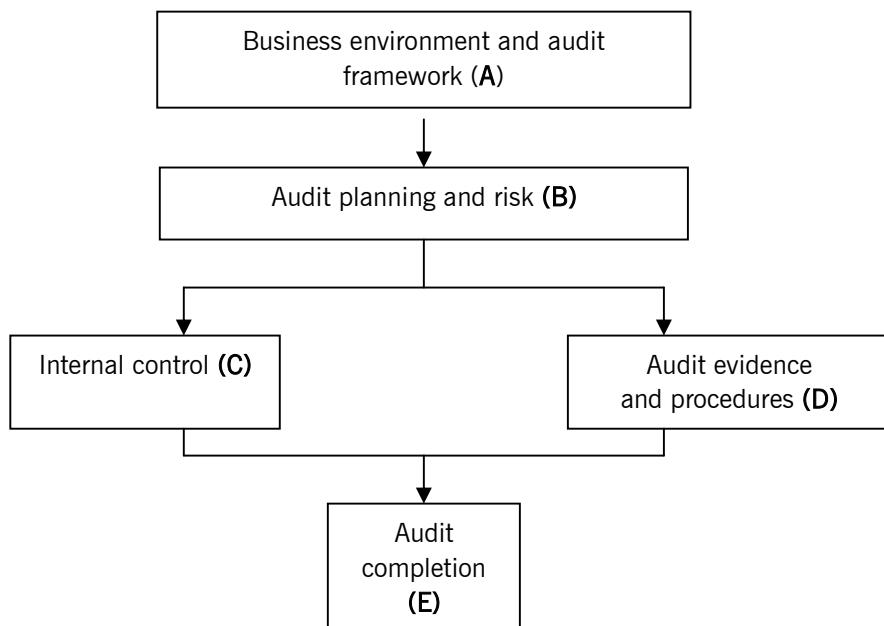
The syllabus for Paper FAU starts with an introduction to the nature and purpose of an audit, including the duties and liability of auditors, and the regulation that auditors must adhere to. The syllabus then covers the areas relating to the process of an audit of financial statements starting at audit planning and risk assessment, recording and evaluating internal control, as well as tests of controls, audit evidence and the use of substantive procedures. The final section deals with audit completion including the audit report.

## MAIN CAPABILITIES

On successful completion of this paper, candidates should be able to:

- A. Explain the purpose and scope of an audit and its regulatory framework
- B. Explain how an auditor assesses risk and plans an audit
- C. Identify the principles of internal control and describe and evaluate the features of information systems
- D. Identify and describe audit evidence and audit procedures required to meet the objectives of an audit and apply International Standards on Auditing (ISAs)
- E. Explain how the audit is completed and reflected in the different types of auditor's report

## RELATIONAL DIAGRAM OF MAIN CAPABILITIES



## DETAILED SYLLABUS

### A Business environment and audit framework

1. The purpose and scope of an audit
2. The legal duties of auditors
3. Professional ethics
4. Auditor engagement and liability
5. Audit regulation

### B Audit planning and risk

1. Audit risk and risk assessment
2. Understanding the entity and its environment
3. Audit strategy and the audit plan
4. Audit documentation

### C Internal control

1. General principles of internal control
2. Techniques to understand, record and evaluate accounting systems
3. Tests of controls
4. Communicating control deficiencies

### D Audit evidence and procedures

1. Audit evidence
2. Audit procedures
3. Substantive procedures
4. Audit sampling
5. Computer-assisted audit techniques (CAATs)

### E Audit completion

1. Going concern
2. Subsequent events
3. Written representations
4. Recording significant and material errors
5. Auditor's reports

## APPROACH TO EXAMINING THE SYLLABUS

The syllabus is assessed by a two hour paper-based examination. Questions will assess all parts of the syllabus.

The examination will consist of two sections structured as follows:

	Marks
Section A – 10 compulsory multiple choice Questions of 1, 2 and 3 marks	20
Section B	
Nine compulsory questions	
Q1 & 2 (15 marks each)	30
Q3 & 4 (10 marks each)	20
Q5 – 9 (6 marks each)	30
	<u>100</u>

# Study Guide

## A BUSINESS ENVIRONMENT AND AUDIT FRAMEWORK

### 1. The purpose and scope of an audit

- a) Explain the nature of an audit. <sup>[K]</sup>
- b) Explain the purpose of an audit, including the advantages and disadvantages of an audit. <sup>[K]</sup>
- c) Explain the nature of accounting records, including proper records. <sup>[K]</sup>
- d) Explain the concept of true and fair presentation, and reasonable assurance. <sup>[K]</sup>
- e) Identify the content of the auditors' report. <sup>[S]</sup>

### 2. The legal duties of auditors

- a) Explain the regulations governing the appointment, removal and resignation of auditors. <sup>[K]</sup>
- b) Describe the duties of auditors. <sup>[K]</sup>
- c) Describe the rights of auditors. <sup>[K]</sup>

### 3. Professional ethics

- a) Discuss the fundamental principles of professional ethics of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. <sup>[S]</sup>
- b) Describe the detailed requirements, and application of professional ethics, in the context of integrity, objectivity and independence. <sup>[S]</sup>
- c) Describe the auditor's responsibility with regard to confidentiality. <sup>[S]</sup>

### 4. Auditor engagement and liability

- a) Explain the factors that auditors should consider before accepting an audit engagement. <sup>[K]</sup>
- b) Explain the purpose and nature of an engagement letter. <sup>[K]</sup>

- c) Explain the liability of auditors under contract and negligence to clients. <sup>[K]</sup>

- d) Explain the liability of auditors to third parties. <sup>[K]</sup>

### 5. Audit regulation

- a) Explain the structure of the auditing profession. <sup>[K]</sup>
- b) Explain the scope of ISAs. <sup>[K]</sup>

## B AUDIT PLANNING AND RISK

### 1. Audit risk and risk assessment

- a) Define audit risk, including inherent risk, control risk and detection risk. <sup>[K]</sup>
- b) Explain a risk-based approach to the audit. <sup>[K]</sup>
- c) Define the concept of materiality. <sup>[K]</sup>

### 2. Understanding the entity and its environment

- a) Explain how auditors obtain an initial understanding of the entity and its environment. <sup>[K]</sup>

### 3. Audit strategy and the audit plan

- a) Identify and explain the need for planning an audit. <sup>[K]</sup>
- b) Identify and describe the contents of the overall audit strategy and the audit plan. <sup>[S]</sup>
- c) Explain the use of analytical procedures in planning. <sup>[K]</sup>
- d) Describe planning issues such as staffing. <sup>[K]</sup>
- e) Explain the role of audit programmes and the advantages and disadvantages of using standard audit programmes. <sup>[K]</sup>

#### **4. Audit documentation**

- a) Describe the reasons for maintaining audit documentation. <sup>[K]</sup>
- b) Explain the purpose and contents of the current file and the permanent file. <sup>[K]</sup>
- c) Explain the quality control procedures that should exist over the review of audit working papers. <sup>[K]</sup>
- d) Explain how information technology (IT) may be used in the documentation of audit work. <sup>[K]</sup>

### **C INTERNAL CONTROL**

#### **1. General principles of internal control**

- a) Describe the five components of an internal control system. <sup>[K]</sup>
- b) Describe the objectives of an internal control system. <sup>[K]</sup>
- c) Describe the inherent limitations of an internal control system. <sup>[K]</sup>
- d) Explain the importance of internal control to auditors. <sup>[K]</sup>

#### **2. Techniques to understand, record and evaluate accounting systems**

- a) Describe the techniques used by auditors to understand, record accounting systems including narrative notes and flowcharts. <sup>[K]</sup>
- b) Describe the techniques used by auditors to evaluate accounting systems including internal control questionnaires (ICQs), internal control evaluation questionnaires (ICEQs) and checklists. <sup>[K]</sup>
- c) Provide examples of, and explain the format and contents of ICQs and ICEQs. <sup>[S]</sup>
- d) Evaluate the internal control system. <sup>[S]</sup>

#### **3. Tests of controls**

- a) Describe and illustrate control procedures to meet specified objectives for each of the following areas: <sup>[S]</sup>
  - purchases and trade payables
  - sales and trade receivables
  - wages and salaries (payroll)
  - tangible non-current assets
  - inventory
  - bank receipts and payments
  - cash receipts and payments.
- b) Explain the purpose of tests of controls. <sup>[K]</sup>
- c) Explain the testing of controls over the following areas: <sup>[K]</sup>
  - purchases and trade payables
  - sales and trade receivables
  - wages and salaries (payroll)
  - tangible non-current assets
  - inventory
  - bank receipts and payments
  - cash receipts and payments.
- d) Distinguish between tests of controls and substantive procedures. <sup>[K]</sup>
- e) Distinguish between application controls and general IT controls and identify the objectives of each control type. <sup>[S]</sup>
- f) Provide examples of specific application controls and general IT controls. <sup>[S]</sup>
- g) State the typical control problems encountered in small computer-based systems. <sup>[K]</sup>

#### **4. Communicating control deficiencies**

- a) Identify and define significant internal control deficiencies and explain the requirements and methods for communicating significant deficiencies to management and those charged with governance. <sup>[S]</sup>

### **D AUDIT EVIDENCE AND PROCEDURES**

#### **1. Audit evidence**

- a) Explain the importance of audit evidence, including sufficient appropriate audit evidence. <sup>[K]</sup>

b) Identify the factors that influence the relevance and reliability of audit evidence. <sup>[K]</sup>

## 2. Audit procedures

a) Explain the importance of the use of the assertions by the auditor. <sup>[K]</sup>

b) Explain the assertions in relation to classes of transactions and related disclosures and, account balances and related disclosures. <sup>[K]</sup>

c) Describe procedures used by auditors to obtain audit evidence, including inspection, observation, external confirmation, recalculation, reperformance, analytical procedures and inquiry. <sup>[K]</sup>

## 3. Substantive procedures

a) Explain the rationale for designing audit programmes by reference to audit objectives. <sup>[K]</sup>

b) Explain the substantive procedures used in auditing each of the following: <sup>[K]</sup>

- tangible non-current assets
- investments
- trade receivables, prepayments and other receivables
- trade payables, accruals and other payables
- bank and cash
- non-current liabilities
- provisions.

c) Explain why the audit of inventory is often an area of high inherent risk. <sup>[K]</sup>

d) Describe the audit procedures that should be undertaken before, during and after attending an inventory count. <sup>[K]</sup>

e) Describe the extent to which an auditor may rely on a system of perpetual inventory. <sup>[K]</sup>

f) Explain the substantive procedures to meet the specific objectives for the audit of inventory. <sup>[K]</sup>

## 4. Audit sampling

a) Define audit sampling and the relevance of sampling to the auditor. <sup>[K]</sup>

b) Identify sampling selection methods, including random selection, systematic selection and haphazard selection. <sup>[K]</sup>

c) State the main factors affecting sample sizes. <sup>[K]</sup>

## 5. Computer-assisted audit techniques (CAATs)

a) Explain the use of CAATs in an audit including the use of audit software and test data. <sup>[K]</sup>

b) Explain the advantages and disadvantages of the use of CAATs to the auditor. <sup>[K]</sup>

## E AUDIT COMPLETION

### 1. Going concern

a) Define and discuss the significance of going concern. <sup>[S]</sup>

b) Discuss indicators of going concern problems. <sup>[S]</sup>

c) Explain the procedures to be applied in performing going concern reviews. <sup>[K]</sup>

### 2. Subsequent events

a) Explain the responsibilities of the auditor regarding subsequent events occurring up to the date of the auditor's report. <sup>[K]</sup>

b) Explain the procedures to be applied in performing subsequent events reviews. <sup>[K]</sup>

### 3. Written representations

a) Explain the purpose of written representations. <sup>[K]</sup>

b) Describe the circumstances where written representations are necessary. <sup>[S]</sup>

### 4. Recording significant and material errors

a) Explain the effect of identified misstatements on the audit. <sup>[K]??</sup>

b) Explain the effect of uncorrected misstatements on the financial statements. <sup>[K]??</sup>

## 5. Auditor's reports

- a) Describe the form and content of unmodified auditor's reports. <sup>[S]</sup>
- b) State the circumstances where an auditor should issue a modified auditor's report. <sup>[S]</sup>

## SUMMARY OF CHANGES TO FAU

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of stakeholders such as employers, students, regulatory and advisory bodies and learning providers.

These syllabus changes are effective from September 2016 and will be updated with effect from 1<sup>st</sup> September each year, thereafter.

These changes are summarised in the table below

Section and subject area	Syllabus content
A4 - Heading amended to include auditor engagement and two new LOs added to develop a basic understanding of the auditor's considerations before accepting an engagement.	<b>A4 Auditor engagement and liability</b> a) Explain the factors that auditors should consider before accepting an audit engagement. <sup>[K]</sup>  b) Explain the purpose and nature of an engagement letter. <sup>[K]</sup>
C2 - Heading and C2a) amended to clarify that techniques covered are to understand, record and evaluate accounting systems.	<b>C2. Techniques to understand, record and evaluate accounting systems</b> a) Describe the techniques used by auditors to understand, record accounting systems including narrative notes and flowcharts. <sup>[K]</sup>
E2 – New section and two new LOs added to explain the requirements in relation to ISA 560 Subsequent Events	<b>E2. Subsequent events</b> a) Explain the responsibilities of the auditor regarding subsequent events occurring up to the date of the auditor's report. <sup>[K]</sup>  b) Explain the procedures to be applied in performing subsequent events reviews. <sup>[K]</sup>