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**Advanced Audit
and Assurance**

Read the mind of an AAA marker

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Introduction

I am a member of the team who will mark Advanced Audit and Assurance. This article is designed to give you, the candidate, an insight into my mind, so that you can better understand what a marker will be looking for when it comes to marking your Advanced Audit and Assurance script.

Insight into a marker's thinking – appreciating what we are trained to look for, what we award marks for, the reasons why marks may not be awarded – will help you fulfil your potential and gain the necessary marks to pass.

It will help you appreciate the points that will attract marks so that you can better assess your answers when practicing questions.

This article uses two sets of candidates' answers to requirements selected from the March 2018 and June 2018 exams.

To support your reading of this article, you should refer to the March/June 2018 – Sample Questions.

[Click the link here.](#)

**Fulfil your potential
and gain the necessary
marks to pass.**

AAA Specimen Exam

This article is based on answer scripts to 20 mark questions in the March/June 2018 exams. You should be aware that, since September 2018, Section B questions are 25 marks each as shown the AAA Specimen Exams. **[Click the link here.](#)**

Question 3

Question 3 uses a very common style of requirement, namely to 'evaluate ... issues and implications'. Here the focus is on quality control, but in another question the focus could be on ethical and other professional issues. You are required to include further actions and matters to be communicated to management and to those charged with governance (TCWG). The examining team has emphasised that professional and ethical considerations, including quality control are a major part of the Advanced Audit and Assurance syllabus and are examined regularly.

Professional and ethical considerations, including quality control are a major part of the syllabus.

Evaluate the quality control issues and the implications for the completion of the audit including any further actions which should be taken by your audit firm. Your answer should include the matters to be communicated to management and to those charged with governance in relation to the audit of Davis Co.

20 marks

Observations on the requirements

The marks were split between four separate issues:

Part (i) for 4 marks concerned the conclusion on the audit of trade payables.

Part (ii) for 6 marks concerned the findings of a review of petty cash transactions.

Part (iii) for 6 marks concerned the results of cut-off testing on revenue.

Part (iv) for 4 marks concerned the client's request that the audit assistance calculate the company's tax payable.

For this style of requirement, marks are normally awarded on the basis of up to 1½ marks for each issue/implication *evaluated* and one mark for each matter to be communicated. As shown in the marking scheme, the vast majority of the marks are for application to the scenario.

Good answers to these requirements would *identify* the quality control issues, *explain* their implications for the completion of the audit and *state* any further actions to be taken. They would also explain *what* needs to be communicated, *why* and *to whom*.

As you will see when you look at the marked answers in this article, it is not possible to achieve a pass mark to such questions by the mere statement of matters of knowledge. However relevant the knowledge, it must be applied to the given scenario.

The vast majority of the marks are for application to the scenario.

Notes on candidate one's answer to Q3

Follow this link to see candidate one's answer to Q3

[View it here](#)

Note 1

Credit for identifying the QC issue in the conclusion and the need for further action (implication).

Note 2

Credit for stating how the finding should have been interpreted.

Note 3

Credit for stating what the conclusion should have been and adding specific detail to the further action.

Note 4

No marks given as this is not appropriate as 'further action' when the audit is clearly described as 'nearing completion'.

Note 5

No marks as this contradicts the scenario which clearly states that items were 'legitimate business purchases'.

Note 6

Mark given for stating what should be communicated specifically to TCWG.

Note 7

No marks as this is not what 'conflict of interest' means and the point does not identify the ethical threat of familiarity.

Note 8

Credit for recognising need for documentation of findings, even if not material.

Note 9

No marks as (i) the matter is immaterial, (ii) it is management's responsibility to investigate further and (iii) it is too late in the audit (see Note 4).

Note 10

No marks as further action would not include further audit procedures on a clearly immaterial matter.

Note 11

No credit as such a trivial matter would not be communicated to TCWG. The wording of the requirement clearly spelt out the need to differentiate between communication 'to management' and 'to TCWG'.

Note 12

Credit for identifying that there is a matter to be communicated.

Note 13

No marks as this is not appropriate as a recommendation. It is not practical to count daily and involve so senior a person as the finance director in such a trivial task relating to an immaterial amount. The candidate has demonstrated a lack of appreciation of the need for cost effectiveness in the implementation of controls.

Note 14

Credit for identifying issue of revenue recognition.

Note 15

Credit for identifying the QC issue.

Note 16

Mark given for relevant further action.

Note 17

No marks as this is not a further action. This has already been documented as this is the cut-off error (because it has not been correctly recorded).

Note 18

Credit for identifying a relevant fact which underlies the issue.

Note 19

No marks in the absence of any reason to justify this statement.

Note 20

Mark given for explaining the implication of the request.

The mark for candidate one for Q3 is 8/20.

TOTAL:

8/20

Notes on candidate two's answer to Q3

Follow this link to see candidate two's answer to Q3.

[View it here](#)

Note 1

Mark for identifying and explaining what should have been the conclusion on the findings.

Note 2

No credit as this is too vague. It is not possible to guess whether this is supposed to be a further action or a matter to be communicated to management or to TCWG. Also, no controls can be so good as to ensure that this is 'not possible'.

Note 3

Mark given for identifying the QC issue in the conduct of the audit of the purchases system.

Note 4

Mark given for stating what should be reported, why and to whom.

Note 5

Mark for respective responsibilities of management and the auditor which is relevant to the matter.

Note 6

Credit for inclusion of matter to be communicated to management, even though it is not material.

Note 7

No marks for this 'textbook' comment as the scenario implicates only the petty cashier.

Note 8

Mark given for identifying the familiarity threat.

Note 9

No credit given for this comment which is too vague. For example, there is no mention of a specific fundamental principle (e.g. lack of objectivity) or what specific safeguards are needed.

Note 10

Credit for identification of non-compliance with IFRS 15.

Note 11

Credit for relevant assessment of materiality.

Note 12

Mark given for stating to whom this should be reported and why.

Note 13

Credit for appropriate extension of testing.

Note 14

No further credit as marks already awarded.

Note 15

Mark given for specifying the self-review threat arising.

Note 16

Although true, the relevance of this statement is unclear. Credit given later when put into context (see Note 19).

Note 17

This is also true but irrelevant as an auditor cannot provide this tax service to a client that is a public interest entity (and Davis Co is listed).

Note 18

No credit given as this is a digression following on from the previous irrelevant point.

Note 19

Mark given for stating to whom this should be reported with reason.

Note 20

This is pure speculation and even if the audit assistant was intimidated, the audit firm would do something about it other than withdraw from the engagement.

The mark for candidate two for Q3 is 12/20.

TOTAL:

12/20

Question 5 (b)

In general, exam questions on the auditor's report take one of two forms. One requires consideration of reporting implications at the final review stage of the audit and the other calls for a critique of draft wording for an auditor's report. Part (b) of Question 5 is an example of the critique-type question.

'Critically appraise' means consider each piece of information and assess whether it is correct or incorrect.

Critically appraise the extract from the auditor's report on the consolidated financial statements of the Blackmore Group for the year ended 31 March 2018.

Note: You are NOT required to re-draft the extract from the auditor's report.

12 marks

Observations on the requirements

The requirement to 'critically appraise' means you need to consider each piece of information and assess whether it is correct or incorrect, describing why and how to amend it as necessary. As is clearly stated you are NOT required to re-draft the extract.

One of the first things to note is that the requirement refers to 'the extract'. As it is not a complete report, comments on missing elements do not answer the question set and would therefore earn no marks.

The extract in the scenario included two key audit matters, a qualified opinion and an emphasis of matter paragraph. You were expected to be able to identify that the sections were in the wrong order, contained inappropriate wording and that the key audit matters and emphasis of matter paragraphs had been incorrectly used.

For this style of requirement, marks are normally awarded on the basis of up to one mark for each well explained point. As shown in the marking scheme, the vast majority of the marks required application to the scenario. Just two or three good answer points drawn from each of the four sections of the extract would achieve a clear pass mark to this requirement.

Notes on candidate one's answer to Q5 (b)

Follow this link to see candidate one's answer to Q5 (b).

[View it here](#)

Note 1

Mark given for identifying the incorrect position of the opinion paragraph and correctly stating where it should be.

Note 2

No credit as irrelevant since there should not be an emphasis of matter paragraph (EoM). Credit given later when correctly identified as a material uncertainty related to going concern ('MURGC') paragraph (see Note 4).

Note 3

No credit for 'textbook' comment. This is irrelevant as there is no EoM to be included in the report.

Note 4

Mark given for identifying the incorrect use of EoM and that the material uncertainty should be highlighted in its own paragraph.

Note 5

Credit for correct position relative to the basis of opinion paragraph.

Note 6

Credit already given (see Note 4).

Note 7

Mark given for identifying the incorrect title of the opinion paragraph and stating what it should be.

Note 8

This is an incorrect statement. ('Free from material misstatement' is a phrase used in describing reasonable assurance in the auditor's responsibilities section of the auditor's report. An opinion is expressed only in terms of 'a true and fair view' or 'present fairly, in all material respects'.)

Note 9

Credit for identifying where the grounds for the qualified opinion should be included.

Note 10

Mark for identifying and stating the omission in the key audit matter (KAM) section.

Note 11

No marks for repetition.

The mark for candidate one for Q5 (b) is 5/12.

TOTAL:

5/12

Notes on candidate two's answer to Q5 (b)

Follow this link to see candidate two's answer to Q5 (b).

[View it here](#)

Note 1

Mark for correct assessment of the valuation of financial instrument as a KAM.

Note 2

Mark for identifying the omission of the impact on audit effort.

Note 3

Credit for identifying that this is not a KAM and why.

Note 4

Mark for assessment of materiality.

Note 5

Credit for identifying where it should be included.

Note 6

Mark given for stating the incorrect use of EoM for what should be a MURGC paragraph.

Note 7

Mark for identifying the incorrect title of the opinion paragraph and stating what it should be.

Note 8

Credit for correct observation.

Note 9

Credit for correct position of MURGC.

Note 10

Mark for identifying and stating the omission of the introduction to the KAMs section.

Note 11

Credit for correct position of KAMs section.

The mark for candidate two for Q5 (b) is 9/12.

TOTAL:

9/12

March/June 2018 exam marked answers

Question 3 candidate one

(i)

The conclusion of audit team on the purchase controls is not sufficient and requires additional audit procedure to be performed.

Since the purchase orders not authorised by the procurement manager, the control is not operating effectively as designed.

So the audit team cannot rely on the test of control work. The amount of substantive test work has to be extended.

We can use CAAT (computer program) to run selecting samples of purchase order to further check to obtain sufficient audit evidence.

Procurement manager doesn't authorise the purchase order is there any indication of fraud or collusion between the staff who raised purchase order and procurement manager or during that days procurement manager were on leave?

After the conclusion of the detail substantive procedures, the audit team has to communicate with those charged with governance during the meeting highlighting the weakness on the authorisation of purchase, the importance of unauthorization, and the recommendation.

(ii)

There is conflict of interest between the audit assistant and petty cashier as petty cashier is brother of the audit assistant.

Regardless of materiality, taxi fares and non-business journeys of \$175 would be raised on the finding documented in the working papers.

More importantly the substantive test on the expense vouching has to be increased. The samples should be increased as there is an indication of fraud and misappropriation of expense recognition.

Further audit procedures should be as follows

- Obtain petty cash book as at 30 November 2017
- Check if the petty cash is counted at month end, signed by petty cashier, and reviewed by the finance director as the evidence of acknowledgement
- Reconcile the balance of petty cash ending balance in the cash book to the actual petty cash count.
- Check detail the nature of expense in the petty cash book if there is any unusual transaction bringing the attention to the auditor.

Marks

1	← Note 1
½	← Note 2
1	← Note 3
0	← Note 4
0	← Note 5
1	← Note 6

TOTAL – Part (i):
3½/4

0	← Note 7
½	← Note 8
0	← Note 9
0	← Note 10

Relevant notes

Marks

Notes

The matter to be communicated to management and those charged with governance should be

- Improve controls over petty cash

Petty cash should be updated in the cash book on daily basis and counted, and acknowledged by Finance Director.

0

← Note 11

 $\frac{1}{2}$

← Note 12

0

← Note 13

TOTAL – Part (ii):

1/6

(iii)

There is cut-off issues which indicate revenue is recognised in incorrect period.

Due to the result of testing it is not sufficient for the audit evidence.

Samples have to be increased on the good despatch notes, and invoices issuing to the customers before and after 30 November 2017.

We have to obtain the breakdown of combined sales of \$17,880 to identify the invoice number, good despatch notes to confirm the cut-off is correctly recorded.

 $\frac{1}{2}$

← Note 14

 $\frac{1}{2}$

← Note 15

1

← Note 16

0

← Note 17

TOTAL – Part (iii):

2/6

(iv)

The tax computation for the year ended 30 November 2017 is the finance director's responsibility.

He shouldn't ask the audit assistant to calculate the company's tax payables.

If the audit assistant accepts this request, it creates the self-interest threat as the audit assistant will review his own work and reluctant to raise any finding or weakness on the working paper of tax computations.

 $\frac{1}{2}$

← Note 18

0

← Note 19

1

← Note 20

TOTAL – Part (iv):

1½/4TOTAL
Q3:**8/20**

Relevant notes

Question 3 candidate two

(i) Purchase orders

This suggests that there is a weak internal control in place relating to the issue. This could lead to a material misstatement. If this can be easily circumvented by staff, it could lead to mistakes being made or deliberate misuse of the system.

There should be clear policies & procedures in place to ensure this not possible.

The Audit team should have increased their sampling range and it could be that more have been detected as a result. They should also test other areas of the system to make sure this is not repeated elsewhere.

The deficiencies should be communicated by the Audit Senior to those charged with governance, in particular the Audit Committee to ensure this is not repeated, especially as it could become a fraud risk.

(ii) Petty cash

The directors of the company have a responsibility to prevent fraud or error, through the use of effective internal controls. The auditor's responsibility is to ensure that the financial statements are free from material misstatement due to fraud or error.

As this is not material, it could be argued that it should be ignored. However, material or not, as the auditor is aware of the fraud, he should report this to management to ensure appropriate action is taken.

If the management are suspected it should be communicated to the audit committee.

Furthermore, a familiarity threat has occurred as a member of the audit team is related to the Petty Cashier. The threat came into action as he discovered the fraud but failed to report it.

The Audit assistant should be made aware of the ethical code and any necessary safeguards which will need to be applied.

Marks

1

0

1

1

TOTAL – Part (i):
3/4

1

1

0

1

0

TOTAL – Part (ii):
3/6

Notes

← Note 1

← Note 2

← Note 3

← Note 4

← Note 5

← Note 6

← Note 7

← Note 8

← Note 9

Relevant notes

(iii) Cut-off testing

These should be recognised when performance obligations are met, as it would be incorrect to recognise them in this financial year.

Individually these are 0.2% of revenue so it would be deemed immaterial and shouldn't affect the auditor's opinion.

However, as he is aware, he should still request management to change the figures.

There is a clear issue with the way revenue is recognised at the company so the auditor should carry out further testing on revenue.

By doing further testing, it may be that this is a common occurrence here and that items could be material in aggregate. If this is the case it would affect materiality and therefore the auditor's opinion.

Marks

1

1

1

1

0

TOTAL – Part (iii):

4/6

Notes

← Note 10

← Note 11

← Note 12

← Note 13

← Note 14

Relevant notes

(iv) Tax Computation

It would be unethical for the auditor to complete the tax calculation as this would lead to a self review threat, this is never allowed as you would be less critical of your own work.

As a key senior personnel, and the 'leader' of the Finance Team, Leslie should possess the necessary skills & competence to carry out the duties, this is a key part of the Corporate Governance Code.

In terms of impact on the audit, the auditor will need to assess if this is material before giving an opinion. As a fixed % of profits, it will be expected to be material.

The auditor should therefore request to Leslie that this must be obtained or they may have to issue qualified or disclaimer of opinion due to being unable to obtain sufficient appropriate evidence on the matter.

This should also be communicated to those charged with governance, especially that the Finance Director doesn't possess the required competence.

The audit assistant could be intimidated by the FD as a result of this request. If this intimidation threat occurs, possible withdrawal should be considered.

Marks

1

0

0

0

1

0

TOTAL – Part (iv):

2/4

Notes

← Note 15

← Note 16

← Note 17

← Note 18

← Note 19

← Note 20

TOTAL
Q3:**12/20**

Relevant notes

Marks

Notes

Question 5 (b) candidate one

Firstly the structure of the report is not correct. The Qualified report must be in the first paragraph, followed by the Basis of opinion paragraph.

Then the emphasis of matter paragraph comes after the Basis of qualified opinion.

However the auditor can use his/her judgment on whether to put the emphasis of matter paragraph before or after the Key audit matters paragraph. The Key audit matter came below the emphasis of matter paragraph if auditor choses to place emphasis of matters paragraph above the Key audit matters paragraph alternatively. Key audit matters paragraph can come below the basis of qualified opinion.

Emphasis of matter paragraph should not include information disclosing going concern matters. This information must be disclosed in the material uncertainty paragraph.

This is placed after the basis for qualified opinion paragraph.

The emphasis of matter paragraph must be removed from the auditor's report.

The other issue I have identified is that there is a fault in the wording used in the heading of qualified opinion. This paragraph must be headed 'Qualified opinion' not 'Qualified opinion arising from disagreement about accounting treatment'.

Also the wording should be. In our opinion, except for the effect of the financial statements of the matter in the basis of qualified opinion paragraph, the financial statements are free from material misstatements not have been properly prepared in all material respects.

The basis of opinion paragraph must be inserted explaining the reason to the qualified opinion.

The key audit matter must expressly mention that the auditor does not express a different audit opinion on these matter and that these were put into consideration when concluding on the opinion.

To sum up the corrected structure must be as follows:

- 1) Qualified opinion
- 2) Material uncertainties
- 3) Key audit matters

1

0

0

1

½

0

1

0

½

1

0

← Note 1

← Note 2

← Note 3

← Note 4

← Note 5

← Note 6

← Note 7

← Note 8

← Note 9

← Note 10

← Note 11

TOTAL – Part (b):**5/12**

Relevant notes

Question 5 (b) candidate two

Key audit matter – valuation

The valuation of financial instrument is correctly placed under key audit matter. This is an area of significant judgement. This means that it is important for shareholders to know this.

However, the audit process of the valuation of the financial instruments should also be included.

Key audit matter – liquidation

The liquidation should not be put under key audit matter. This is incorrect as there is clearly a misstatement for not making a full provision.

The amount is 2.03% of group's total assets and 13% of the loss before tax. This means it is material but not pervasive.

This should be written under 'Basis for qualified opinion'.

Emphasis on matter

The heading here is incorrect. Since there is a material uncertainty of going concern this statement of the breach of covenants and the loss should be headed under 'material uncertainty on going concern'.

Format and wordings

The title of the qualified opinion paragraph should not have any 'arising from ...' extension. It should just be headed as 'Qualified opinion'.

The reference to IFRS standards should be written out in full as International Financial Reporting Standards.

There should be no emphasis of matter, it should be material uncertainty related to going concern section. This should be placed immediately after the basis for opinion.

The key audit matters (KAMs) section should have an introduction to explain what KAMs are (i.e. matters of most significance to the audit for the current period).

It should be placed after the material uncertainty related to going concern section.

Marks

1

← Note 1

1

← Note 2

1

← Note 3

1

← Note 4

½

← Note 5

1

← Note 6

1

← Note 7

½

← Note 8

½

← Note 9

1

← Note 10

½

← Note 11

TOTAL – Part (b):

9/12

Notes



← Note 1

← Note 2

← Note 3

← Note 4

← Note 5

← Note 6

← Note 7

← Note 8

← Note 9

← Note 10

← Note 11

Relevant notes

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