



ADVANCED AUDIT & ASSURANCE (AAA-INT)

**Read the mind
of an AAA marker
SPECIMEN EXAM Q1**

Think Ahead

Contents

| | |
|---------------------------------------|----|
| INTRODUCTION | 3 |
| QUESTION 1 | 4 |
| Observations on the requirement | 4 |
| Specimen exam marked answers | 5 |
| Question 1 candidate one | 5 |
| Notes on candidate one's answer to Q1 | 9 |
| Question 1 candidate two | 10 |
| Notes on candidate two's answer to Q1 | 13 |





Introduction

I am a member of the team who marks Advanced Audit & 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 & 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 candidates' answers to Question 1 from the AAA-INT specimen exam. To support your reading of this article, you should refer to the specimen exam on the **ACCA Practice Platform**.

You may also find it interesting to refer to the published answers for the specimen exam, noting the differences and comparing the length and style to the candidates' answers seen in this article. It's important to remember that you don't need to replicate the published answer to achieve a pass. You can access the answers on the **ACCA Practice Platform**.

Question 1

Observations on the requirement

Note: The split of the mark allocation is shown in Exhibit 1 – Partner’s email.

The screenshot displays the AAA-INT Specimen exam interface. On the left, there is a sidebar with 'Exhibits' (1. Partner's email, 2. Background information, 3. Selected financial information, 4. Audit team meeting notes), 'Requirement' (Requirement (50 marks)), and 'Response Options' (Briefing notes, Spreadsheet). The main area shows the requirement text: 'It is 1 July 20X5. You are a manager in the audit department of Pegasus & Co, a firm of Chartered Certified Accountants. You are assigned to the audit of the Crux Group (the Group), which has a financial year ending 30 September 20X5, and is a listed entity. Pegasus & Co was appointed auditor to the Group in January 20X5. The Group operates in the travel industry, offering a selection of worldwide itineraries and has a fleet of 20 cruise ships. The Group operates three brands which provide different types of cruise experience.' Below this, a window titled '1. Partner's email' is open, showing an email from Norma Star, Audit engagement partner, dated 1 July 20X5. The email content includes a greeting, a request to prepare briefing notes, and three tasks: (a) evaluate and prioritise audit risks (25 marks), (b) design principal audit procedures (5 marks), and (c) evaluate matters for engagement acceptance (10 marks). The email ends with 'Thank you'.

Professional marks will be awarded for the demonstration of skill in communication, analysis and evaluation, professional scepticism and judgement, and commercial acumen in your answer. (10 marks)

Question 1 is a case-study style section A question and is worth 50 marks. These questions are always set at the planning stage of the audit engagement. This question asks you to 'evaluate and prioritise' the significant audit risks of the engagement, recommend some appropriate audit procedures and evaluate the ethical and professional issues in respect of accepting a separate engagement in addition to the main statutory audit. By 'prioritise', the Examining Team will be looking for you to demonstrate your ability to identify the important risks in this scenario. This may be by stating "This should be a focus for the audit planning", stating the important risks first in your answer or providing a short conclusion stating which significant issues should be brought to the attention of the audit engagement partner.

Stronger candidates are those who demonstrate good technical knowledge, answer the question requirement and refer to the scenario in their responses. In a Section A question, there are four communication marks available, so ensure that you use the briefing notes template, use headings where appropriate and aim to write your responses in a clear and concise manner.

The requirement states that audit risks relating to foreign exchange should not be addressed. Do not waste time commenting on these risks.

Audit procedures must relate to the scenario and to the requirement, stating both a source and a reason for seeking the evidence. Relevant procedures which provide suitable evidence score well in the exam. Pay attention to any details which may state that procedures should address a particular assertion, such as valuation or existence of assets. Consider carefully whether the procedures or actions you are recommending address these requirements. This question seeks information regarding segmental reporting of revenue only.

Finally, part (c) requires you to assess whether there are any ethical or professional reasons for not accepting an additional engagement with the audit client. Students who demonstrate they can apply their knowledge to the scenario and come to a suitable conclusion will gain both technical marks as well as professional marks for evaluating the information in a logical manner.

Specimen exam marked answers

Marks awarded and comments:

Question 1 candidate one

Roll your cursor over each numbered note for the marks awarded and marker's comments to appear in the right side panel:

Briefing notes

To: Norma Star, Audit engagement partner
From: Audit manager
Subject: Re: Audit planning for the Crux Group
Date: 1 July 20X5

Briefing notes

These briefing notes have been prepared to help in planning the audit of our new client, the Crux Group (the Group), for the financial year ending 30 September 20X5. In the first part, I evaluated the audit risks to be considered in planning the Group audit. Secondly, the notes contain principal audit procedures to be performed on the segmental information relating to the Group's revenue. Next part evaluates the matters to be considered in deciding whether Pegasus & Co should accept the engagement to provide advice on the Group's social and environmental information. The notes end with information describing how the use of data analytics can bring these benefits to an audit like that of the Crux Group.

(a) Audit risks

Materiality

Materiality is based upon the profit before tax of the Group. This is calculated as follows

5%-10% of profit before tax = \$4.05million - \$8.1million

As this is a new client, and the detection risk has been increased due to our lack of understanding of this particular business and the brought forward balances, the lower range of \$4.05million is chosen as a suitable materiality level.

1. New client and the first year of the audit - risk of detection

The Crux Group (the Group) is a new client, we have to understand the entity, its environment, its controls. We do not have experience with this client, and we may not recognise all risks of material misstatements. We did not audit the opening balances. The client is listed which means that the risk if wrong opinion is issued is higher.

2. Revenue recognition

Applicable standard of reporting which describes how revenue should be recognised, recognises 5 steps in revenue recognition. One of the most important things is to find out of the revenue should be recognised over the time or at the point of time. Revenue should be recognised over the time when among other conditions, the customer consumes the goods /service at the same time when it is performed by the entity.

Cruises typically last for two weeks, though some last for up to six weeks. This could be understood that the customer gets the service over time, not at a point of time, simultaneously when the Group is performing its service. However, the note 1 says that the full amount of the ticket price is transferred to revenue when the cruise starts irrespective of the duration of the cruise. As revenue is a material balance both by nature and by its quantity, plus it is an area of management judgement and application of the accounting standards correctly, this is a material balance to the audit engagement.

There is a risk that revenue is overstated and the deferred revenue is understated.

1/4

Specimen exam marked answers

Marks awarded and comments:

Question 1 candidate one

Roll your cursor over each numbered note for the marks awarded and marker's comments to appear in the right side panel:

Briefing notes

3. Cost of upgrading and maintenance of the Sunseeker Cruise ships

The Group will spend \$75 million on upgrading and maintenance of the Sunseeker Cruise ships. This amount is material to the financial statements.

Applicable financial standards of reporting require that cost of maintenance of property, plants and equipment (in this case, of ships) should be expensed to profit and loss account while the upgrading the ships through installation of new entertainment facilities including cinemas and gyms should be capitalised and increase the value of property plant and equipment.

There is a risk that the expenditure of \$75 million (which is material to the financial statements) was wrongly categorised (maintenance vs and upgrading) and as a result the property plant and equipment could be overstated and profit overstated or if some costs which should be capitalised were expensed than the property, plant and equipment may be understated and the profits understated.

4. Capital expenditure of new Explorer Cruise ships, work in progress and borrowing costs

During this financial year, two new ships with a total cost of \$110 million will come into use. The value of these new two ships is material to the financial statements. The interest costs of the loan which was taken to finance the purchase for the current year amount to \$6.6 million and it is also material to the financial statements.

New assets should be recognised in PPE value and the old ships which will be replaced should derecognised.

Applicable financial standards of reporting require that cost of borrowing, in this case the interest on the loan, should be capitalised and added to the value of the constructed assets, from the moment the decision about the purchase has been taken and first expenditure was made till the moment the asset is ready for use.

As it is projected that during this financial year two new ships with a total cost of \$110 million will come into use the value of ships should increase more than \$93 million ($2,041 - 2,010 + 62$).

There is a risk that property plant and equipment is understated and profits are understated if the value of the new ships was expensed to profit and loss account.

There is a risk that interest of the loan was expensed to profit and loss statement, rather than added to the value of the ships in use. In this case, the profit will be understated and assets will be understated.

Similarly, the ships which are under construction should be recognised in "Ships under construction" as work in progress and the base should be the expenditure which the Group has to cover plus the interest rate of the loan which was taken to construct the ships.

There is a risk that interest of the loan was expensed to profit and loss statement, rather than added to the value of the ships under construction. In this case, the profit will be understated and assets will be understated.

5. Useful life of equipment in the gyms

Financial standard of reporting requires that if different parts of tangible asset have different useful lives, they should be depreciated using their individual useful life. Equipment in the gyms should be replaced every three years so this part of PPE should be depreciated over three years, not like the whole ship.

There is a risk that wrong period for depreciation was used, the same as for a ship, and then assets will be overstated, and profits will be overstated.

2/4

Specimen exam marked answers

Marks awarded and comments:

Question 1 candidate one

Roll your cursor over each numbered note for the marks awarded and marker's comments to appear in the right side panel:

6. Possible non adherence to laws and regulations

Last month, the Group suffered a cyber-security attack in which the personal information of 1,400 customers, including their credit card details, were stolen. There is a risk that the Group breached the regulation which entered into force recently. There is a risk that the Group will have to pay penalties for this breach and that not all disclosures relating to this event will be contained in the required disclosure. It is possible that management will want to hide this event or even if this will be disclosed, the provision for legal claims may be understated.

Another risk is that this breach may lead to significant decrease of revenue as the potential customers may be afraid of improper use of their personal data if the attack happen once again. They may not be sure about that the issue is resolved. This may cause to risk of going concern and there is a risk that proper disclosures relating uncertainties relating the going concerns are not made.

7. Disclosure of related parties

The Group entered transactions with Vela Shipbuilders Co which in the related party as the chairman of the Group, Max Draco, is also the chairman of Vela Shipbuilders Co, and his son is the company's chief executive officer.

Related party transaction is material by nature and should be disclosed in the notes to the financial statements. The nature of the transactions should be disclosed, the value of the transactions and the balance outstanding at the reporting date.

There is a risk that Vela Shipbuilders Co was not disclosed as a related party, as the Group does not own the shares of the company and the directors may not be aware that transactions with this entity should be treated as related party transactions.

8. Licences of the Pioneer Cruise

Licences amount to \$56 million, and this is material to the financial statements.

Last week, the governments of several countries which form a major part of the Pioneer Cruise itineraries withdrew their operating licences with immediate effect.

Then the licences are withdrawn, they should be derecognised from the Intangible assets. The value of the licences decreased by only \$1 million which suggests that the licences were not derecognised.

There is a risk that licences are overstated, and the profits overstated.

3/4

Specimen exam marked answers

Marks awarded and comments:

Question 1 candidate one

Roll your cursor over each numbered note for the marks awarded and marker's comments to appear in the right side panel:

Briefing notes

Paragraph

Conclusion

As this is a new audit client, the increased detection risk due to lack of knowledge and possible errors in the opening balances make this a significant issue. Revenue is a significant area of risk as there are indications that this may not be properly accounted for in accordance with accounting standards. There are several instances where the company have not adopted correct accounting standards, such as the treatment of borrowing costs, so particular attention should be paid to areas where management judgement or estimation is used. The audit engagement should focus their testing on these key areas to minimise the risks in the audit.

(b) Principal audit procedures to be performed on the segmental information relating to the Group's revenue.

1. Inspect a copy of reports which managements uses to perform analysis and evaluates the results of the Group to confirm what are the main segments recognised by the management
2. Discuss with management how they evaluate the segments, what do they take into account when assessing the results of the segments, to confirm that copy of the report obtained is in line what the management says
3. Calculate the percentage of revenue of each segment of total revenue of the Group to confirm if each segment brings at least 10% of the revenue to the Group
4. Calculate the percentage of external revenue which all segments bring to the Group to confirm that at least 75% of the external revenue is shown in separate segments.

(c) The matters to be considered in deciding whether Pegasus & Co should accept the engagement to provide advice on the Group's social and environmental information.

Advice on the Group's social and environmental information -acceptance considerations.

We need to consider the following factors:

- Social and environmental information reporting is required by new regulations - we may lack expertise in this area as auditors (professional competence and due care breach) and also may increase costs
- Work is urgent so we will be time pressured, there is an audit ahead, which puts another strain on our availability (resourcing issue) - this is the risk to be considered
- There is a self-review risk, because during the audit we will (most likely) need to read Social and environmental information to check for consistency with financial statement
- Enhanced fee is another factor to be considered - we may be seen as fee-dependent on the client, that triggers self - interest and intimidation risk, among others.
- The Group is listed entity so the extent of non-audit services we can do is strictly limited - I have serious doubts if that is job that could be accepted (to be confirmed)
- Finally, however, by accepting this work, we may be seen as assuming management responsibilities in that area, which is prohibited by ACCA Code of Conduct and there are no safeguards to eliminate that risk
- Conclusion - in my view, **we should not accept** this engagement. We should politely decline.

Conclusion

The audit of the Crux Group brings a number of significant audit risks. Proper audit procedures should be planned to decrease the risk to an acceptable level. Sufficiently experiences staff should be assigned to the audit.

4/4

Notes on **candidate one's** answer to Q1

Summary of marks:

| TECHNICAL: | |
|---------------------------------|------------------------|
| Part a | 21.5 |
| Part b | 4 |
| Part c | 5 |
| TOTAL technical marks | 30.5 |
| PROFESSIONAL: | |
| Communication | 4 (max in part a) |
| Analysis and Evaluation | 3 (part a) +1 (part c) |
| Scepticism | 3 (part a) |
| Commercial Acumen | 1 (part a) |
| TOTAL professional marks | 14 (max 10) |
| OVERALL TOTAL | 40.5/50 |

How could this answer have been improved?

1. When risks are highlighted, such as 'the client is listed which means that the risk if wrong opinion is issued is higher', credit would have been given if the candidate had explained why the risk is higher e.g strict reporting guidelines and legislation applies to listed companies or there are potentially a higher number of stakeholders who would be affected by an incorrect auditor's report (such as investors, customers, suppliers, banks and credit institutions).
2. Where the effect of the risk or potential misstatement can be calculated, the candidate should quantify (where possible) and state the effect on the financial statements (consider the double entry of the error). Professional marks may be credited where this risk may have wider implications, such as impact on the gearing ratio if the company is seeking additional finance, or affecting profitability if they are planning on becoming a listed company.
3. More audit procedures may have been suggested for the segmental reporting, but in this case the candidate has maximised their marks (gaining 1 full mark for each suggestion) as they have recommended the procedure and explained what they are looking for, they are explaining why that information is needed.

Specimen exam marked answers

Marks awarded and comments:

Question 1 candidate two

Roll your cursor over each numbered note for the marks awarded and marker's comments to appear in the right side panel:

Briefing notes

Introduction

These briefing notes provide relevant matters to be considered regarding the planning process for the new client, the Crux Group (the Group).

(a) **Audit risks evaluation**

Materiality is calculated at \$8.1million (10% PBT)

Upgrade and maintenance of the Sunseeker Cruises

The Group will spend \$75 million on upgrading and maintenance of the Sunseeker Cruise ships.

As well as refurbishment, several ships have been enhanced by the installation of new entertainment facilities including cinemas and gyms. The \$75 million upgrade is representing approx. 4.2% of the total assets and 92.6% of the profit before tax - therefore it is a material for the financial statements. If the management will account for these upgrades as an additions to the property plant and equipment, there is a risk that not all of the additions would meet the capitalization requirements. That means that both property, plant and equipment line item and the profit before tax might be overstated. Also, there is a risk of inappropriate depreciation rates used for the new entertainment facilities including cinemas and gyms. Equipment in the gyms will need to be replaced on average every three years, and so considering the economic usefulness, relevant depreciation rates shall be considered in this matter.

Acquisition/ recognition new ships (Explorer Cruises) - related party transaction considerations

Two new ships with a total cost of \$110 million will come into use. The ships were constructed by Vela Shipbuilders Co, a company which is not owned by the Group. However, the chairman of the Group, Max Draco, is also the chairman of Vela Shipbuilders Co, and his son is the company's chief executive officer. A further three ships are currently under construction by Vela Shipbuilders Co. Apart from the quantitative aspects of above information and its significant impact on the financial statements from the perspective of the statement of the financial position (\$110 million acquisition represent approx. 6% of the total assets therefore material to the financial statements), the related party transactions are considered very important to the financial statements from the qualitative information. The mentioned transaction represents the related party transactions and there is a risk of not sufficient disclosures. Also, the audit team shall consider the other aspects of these transactions in their planning procedures such as evaluation of the appropriateness/ arm-length basis rules of the transactions terms such as e.g. transaction price. The audit team shall also consider requesting relevant representations from the management as a supporting audit evidence in this matter.

Notes payable (loan taken) recognition and accounting (Explorer Cruises)

The purchase of the ships was financed through a \$110 million loan with a fixed interest rate of 6% per annum. A further three ships are currently under construction by Vela Shipbuilders Co. The Group has taken out a loan of \$180 million with a 6.5% fixed interest rate to finance this capital expenditure. There are several risks related to these loans. The audit team shall consider relevant aspects of the details/ key characteristics (e.g. if the assets are contingent/ 'mortgaged', if any financial covenants apply to the loan taken) of the loan and plan relevant audit procedures in order to gain desirable level of assurance. The loans jointly represent 15% of the total assets there it is material for the financial statements. There is a risk that inappropriate accounting is applied for these loans e.g. amortized - cost / fair value, so that the notes payable (liabilities) might be understated.

1/3

Specimen exam marked answers

Marks awarded and comments:

Question 1 candidate two

Roll your cursor over each numbered note for the marks awarded and marker's comments to appear in the right side panel:

Briefing notes

📄

✂

📋

📌

↶

↷

🔍

B

I

U

↶

X₂

X²

I_x

Paragraph ▾

📊

≡

≡

≡

≡

≡

≡

≡

≡

≡

≡

📄

Revenue recognition from ticket sales

Revenue includes passenger ticket sales, which accounts for approximately 85% of revenue. When customers book a cruise they are required to pay a refundable 20% deposit, which is initially recognised as deferred revenue. The balance of 80% is paid at least six weeks before the cruise commences and at that point it is also recognised as a deferred revenue. The full amount of the ticket price is transferred to revenue when the cruise starts irrespective of the duration of the cruise. With the deferred payments that the customers are obliged to pay in advance, there is a risk of the revenue recognition timing. Based on the relevant accounting standard e.g., International Financial Reporting Standards (the IFRS) i.e., IFRS 15 dealing with matters related to the revenue, the revenue shall be recognized only if the performance obligations have been fulfilled. In this case, the revenue might be recognized too early that is, while the customers pay their deposits. The risk might be significant also considering the fact that the management might not monitor closely as it does with regarding to the less substantial revenue stream (on-board sales).

Pioneer Cruise itineraries withdrawal of operating licences

Last week, the governments of several countries which form a major part of the Pioneer Cruise itineraries withdrew their operating licences with immediate effect. The governments have stated that this is likely to be a temporary measure being put in place to limit the number of tourists visiting areas of natural beauty, but they will not confirm when the Group can resume operations. There is a risk of impairment of the intangible assets as they might no longer be 'economically useful. Based on the relevant standard i.e. International Accounting Standard (IAS) 36, if relevant factors are met that could indicate that e.g. an asset might be no longer used - the entity shall perform relevant test to confirm if there is any impairment recognition requirement. It seems like withdrawal of operating licences is the event triggering the need of performing impairment test - therefore the intangible assets might be overstated.

Cyber-security attack

Last month, the Group suffered a cyber-security attack in which the personal information of 1,400 customers, including their credit card details, were stolen. According to a representative of the Group audit committee, the Group's internal audit team had not properly assessed the risks relating to cyber-security, which is a requirement of recently introduced data protection legislation in the jurisdiction in which the Group operates. The issue which led to the cyber-security attack has now been resolved. There are several risks that the Group can face. The customers might sue the Group due to the fact that their personal details were stolen - i.e. there could be a need for providing relevant provisions considering the IAS and IFRS requirement i.e. in the event of past events that can end up with negative cashflow outcome in the future. There is also a risk that the Group can face a penalty since the data protection legislation in the jurisdiction in which the Group operates was breached/ was not followed.

(b) Principal audit procedures - segmental information

- review non-current assets register and analyse what assets relate to the 3 separate brands
- speak to the management to obtain more information how the revenue is booked to understand how the system works to be able to verify that the revenue is correctly booked to the appropriate brand.
- take a sample of the bookings and reconcile them to the bank statement and cash book,
- request the licence and verify that the licences are correctly allocated to the appropriate brand
- agree the non-current asset register net book value to the calculation included in the financial information to make sure that these two sources show the same information.
- request information in relation to bank, do the brands have separate bank accounts and how the transactions are correctly recognised in between the brands if there is only one bank account. If there is only one bank account pull the sample of expenses or incoming payments and verify to the purchase and sale ledger to identify that they were correctly included in specific brand.
- request detail of the person who prepared the financial information to verify qualifications and competences of the person.
- speak to the management regarding booking the revenue and request a list of cancellation. Check this list against the bank statement to see that the deposits were refunded.
- discuss with the management the workings of the financial report and key assumption to understand their reasonableness
- prepare sensitivity analysis to see how it would impact the forecast if the key assumption matter
- request a report from the ship builder company to confirm the number of the ships under construction.

2/3

Specimen exam marked answers

Marks awarded and comments:

Question 1 candidate two

Roll your cursor over each numbered note for the marks awarded and marker's comments to appear in the right side panel:

Briefing notes

📄

✂

📋

📌

↶

↷

🔍

B

I

U

↺

x₂

x²

I_x

Paragraph ▾

📊

☰

☰

☰

☰

☰

☰

☰

☰

☰

☰

☰

(c) Matters to be considered - social and environmental information advice engagement acceptance

Ethical consideration

the Crux Group is not a listed company, and we are not prohibited from carrying on additional work. However, we need to consider other ethical threats like familiarity which may not be a problem yet as it is a new client. But also, the firm need to see if there is no other personal or financial relationship between the firm and the group that would affect objectivity

Resources

Do we have competent and experience people to carry on work in relation to social and environmental issues. It appears the sector is quite regulated and we may not know the law in regards to the sector. Additionally, Crux Group deal with the government in foreign countries. Do we have any knowledge regards to legislation and environmental law in those countries. Will we have enough staff to complete the time on time.

Scope of the report

What would need to be reviewed as a scope of the report. What will we need to analyse for this engagement. Is this data publicly available. Would it be only local data or do we need to also verify data abroad. There is an issue with the language as well. Will the data be available in the firm's employees language?

Content of the report

The firm needs to find out what would be the content of the report. Is Crux Group looking for any sort of assurance in relation to this engagement.

User of the report

We need to also know who is report directed to. Is this information required for the licence or bank loan. Is the audience of the report is limited or general. This will effect the work as we need to be aware who will rely on the information.

Timeframe

What is the time frame of the data we need to analyse. This will have a huge impact on the decision as we need to know what amount of work and data needs to be analysed for this engagement to be able to have the number of staff available to complete it.

Commercial reality

the audit firm need to know how many hours it will take us to carry on this engagement as at the end of the day the firm needs to generate the income and it is important that cost is analysed to see that the firm still generate profit for this work.

Management integrity

Management integrity is a big factor. They may use the report to obtain licence or get some tax reduction and it may be incentive for them that the things looks better than they are. Therefore, we need to consider is it possible for them to manipulate the data.

Summary

Several audit risks were identified and evaluated which should be considered during the planning process of the audit of the Group. The briefing notes also include the proposed audit procedures with respect to the segmental information of the Group's revenues. With respect to the additional service requested by the Group audit committee, in might not be appropriate to accept this engagement considering mostly the potential lack of specific related knowledge and the staffing requirement in such short deadline. Finally, the briefing notes include how data analytics can bring these benefits to an audit like that of the Group.

3/3

Notes on **candidate two's** answer to Q1

Summary of marks:

| TECHNICAL: | |
|---------------------------------------|-------------------|
| Part a | 8.5 |
| Part b | 0.5 |
| Part c | 3.5 |
| TOTAL technical marks | 12.5 |
| PROFESSIONAL: | |
| Communication | 3 |
| Analysis and evaluation | - |
| Professional scepticism and judgement | 1 |
| Commercial acumen | 2 |
| TOTAL professional marks | 6 (max 10) |
| OVERALL TOTAL | 18.5/50 |

How could this answer have been improved?

There is little development of the main points made by the candidate. Many points had plenty of text written regarding them, however, much of it was repeating the scenario information, which gains no credit. The Examining Team are looking for application and consideration of the information by the candidate. Listing of points, without offering a point of view or noting particular problems in the evidence presented, will not demonstrate this application. Disappointingly, the candidate was identifying the correct issues, but not explaining them in enough depth. In part (c), professional marks were not gained as solutions and conclusions were not provided (it should be an 'evaluation' not a list of issues).

1. Procedures

There were professional marks available in this question for providing audit procedures for obtaining audit evidence in respect of the accuracy of segmental reporting. In this case, the candidate should have written fewer individual points and expand upon one or two to gain some credit. Development of points will gain more technical marks and enable scope for professional marks to be awarded.

2. Materiality

The candidate has calculated the basis of materiality according to the instructions of the audit engagement partner, and has recognised that the balance is material, however, they are not using the stated materiality level they calculated. This is consistent throughout the script. Therefore, the professional mark for consistency of application of materiality has been missed.

3. Conclusion

Conclusions in AAA should be brief and may be used to demonstrate the candidate's ability to analyse the information, highlighting the most significant risks in the audit or areas to focus on. They have missed the opportunity to present other skills here, such as the prioritisation of risks (see point 5 below).

4. Content

The candidate often repeats extracts from the scenario which are not developed, or the relevance of the point is not explained. This gains no professional skill credit. It is acceptable for candidates to copy or paraphrase from the scenario provided they use it to explain or develop a point or a risk. Repetition of information uses valuable time for minimal credit.

There are useful exam technique articles on the ACCA website which can provide guidance on where the technical marks can be gained when responding to a Section A question. See also candidate one's response for where professional marks could have been gained by further developing the answer.

Notes on **candidate two's** answer to Q1

How could this answer have been improved?

5. Prioritisation of risks

The candidate does not demonstrate any ability to prioritise the significant audit risks as required by the audit engagement partner's instructions. This could have been achieved by putting the most significant risks earlier in the briefing notes, thereby bringing them to the attention earlier in the document. Alternatively, a conclusion could summarise the most significant audit risks and problems for the auditor (this can be at the end of part (a) or as an overall summary at the end of the briefing notes). Another approach would be to provide a brief line stating how significant the risk is as the points are developed, however, this may be more time pressurised, but would still gain credit for reasonable justification. Prioritisation of risks requires justification, and as long as that is reasonable in the context of the scenario, credit will be gained: there is no 100% 'correct' answer regarding prioritisation of risks, the candidate needs to state 'why' they believe the risks would be of most significance in this particular audit scenario.

6. Additional service

The candidate received credit for the identification of the ethical and professional issues, however, professional marks could have been awarded for showing development of some of the points. The requirement asks the candidate to 'evaluate' the issues, rather than just listing the key issues. Professional marks could have been gained by providing a conclusion as to whether it would be appropriate to accept the engagement, or highlighting issues which would be fundamental to the decision making (such as where safeguards would not limit the risk to an acceptable level or regulations forbid the acceptance).



For more tutor resources,
visit [accaglobal.com/
tutor-resources](https://accaglobal.com/tutor-resources)

For more student resources,
visit [accaglobal.com/
exam-resources](https://accaglobal.com/exam-resources)