



Examiner's report

Audit and Assurance (AA)

December 2019

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

General Comments

The Audit and Assurance exam is offered in computer-based (CBE) format. The model of delivery for the CBE exam means that candidates do not always receive the same set of questions. In this report, the examining team share their observations from the marking process to highlight strengths and weaknesses in candidates' performance, and to offer constructive advice for future candidates.

- Section A objective test case questions – here we look at the key challenge areas for this section in the exam.
- Section B constructed response questions – here we provide commentary around some of the main themes that have affected candidates' performance in this section of the exam, identifying common knowledge gaps and offering guidance on where exam technique could be improved, including in the use of the CBE functionality in answering these questions.

There were two sections to the examination and all the questions were compulsory. Section A consisted of three OT cases each comprising five OT questions for a total of 30 marks, which covered a broad range of syllabus topics. In Section B candidates were presented with one constructed response question worth 30 marks and two constructed response questions worth 20 marks each; testing the candidates' understanding and application of audit and assurance in more depth.

In order to pass this examination, candidates should ensure they devote adequate time to obtain the required level of knowledge and application. Candidates who do not spend sufficient time practicing questions are unlikely to be successful as the constructed response questions in particular aim to test candidates' application skills.

Section A

It was very pleasing to see that once again almost all candidates attempted all 15 questions, across the three OT cases. Candidates preparing for future sessions are advised to work through the past exams which are available and to carefully review how each of the correct answers were derived. Section A questions aim to provide a broad coverage of the syllabus, and future candidates should aim to revise all areas of the Audit and Assurance syllabus, rather than attempting to question spot. Section A in the December 2019 examination included, but was not limited to, questions on the following areas:

- Principles of assurance
- Corporate Governance
- Substantive procedures including non-current assets
- Audit finalisation and review

Sample questions for discussion

The following questions are reviewed with the aim of giving future candidates an indication of the types of questions asked, guidance on dealing with exam questions and to provide a technical

debrief on the topics covered by the specific questions selected. Candidates are reminded that there will be a mix of application and knowledge questions in Section A and it is imperative that they ensure their knowledge of the International Standards on Auditing (ISAs), relevant financial accounting and important areas of the syllabus such as auditors' reports is at an appropriate level. Questions may test specific details of examinable documents including ISAs, ACCA's Code of Ethics and Conduct and the UK Corporate Governance Code, therefore candidates must ensure that they have studied these in sufficient depth. Candidates must also ensure that they have studied all areas of the syllabus. The syllabus includes audit evidence learning outcomes relating to a wide range of specific items, any of which may be examined.

Example 1

You are an audit manager working for W & Co which has audited X Co for the last seven years. The board has decided that X Co should be listed on a stock exchange and the board has asked W & Co to advise the company on how to become compliant with corporate governance guidelines.

Which of the following are typical requirements contained within best practice corporate governance guidelines?

- (1) The remuneration committee should only consist of independent non-executive directors
- (2) The chief executive officer should be responsible for leadership of the board and ensuring its effectiveness
- (3) The non-executive directors should provide constructive challenge and strategic guidance
- (4) The audit committee's key role is appointing and liaising with the external auditor

- A.** 1 and 3 only
B. 2 and 4 only
C. 1, 3 and 4
D. 2, 3 and 4

The correct answer is A.

This question tests knowledge of corporate governance guidelines. It demonstrates not only the level of detailed knowledge which is required but also the importance of reading the question carefully rather than rushing to a conclusion. It is the chairman, not the chief executive officer who is responsible for the board. The audit committee will liaise with the external auditor, although this is not its key role, but is not responsible for their appointment. The audit committee may make recommendations regarding the appointment of the external auditor but appointment is normally by the shareholders at a general meeting.

Example 2

It is 1 July 20X5. You are an audit supervisor of Y & Co and have been assigned responsibility for completing the detailed going concern testing for Z Co for the year ended 30 April 20X5. Z Co's audit should be finalised and the financial statements signed by 30 September 20X5. Management's assessment of Z Co's ability to continue as a going concern covers the period to 30 November 20X5.

Which of the following actions should Y & Co take in relation to Z Co's going concern assessment?

- A.** Request that management extends the assessment period to 30 September 20X6
- B.** Request that management extends the assessment period to 30 April 20X6
- C.** Perform additional audit procedures to confirm Z Co's going concern status
- D.** Review management's assessment to 30 November 20X5 and only request that it is extended if it raises doubt that Z Co is a going concern

The correct answer is B.

This question examines knowledge of ISA 570 Going Concern. However it also demonstrates the need to be able to apply the principles to a practical scenario. ISA 570 requires that in evaluating the entity's ability to continue as a going concern the auditor must cover the same period as that used by management to make its assessment. If management's assessment covers a period of less than twelve months from the date of the financial statements the auditor is required to request management to extend its assessment period. In this case the auditor must request that management extend the assessment period to 30 April 20X6. Performing additional audit procedures would not resolve the fact that the assessment period is not as required by ISA 570, therefore option C is not an appropriate response in this instance.

Section B

The constructed response questions in Section B tested candidates' understanding of the Audit and Assurance syllabus:

- Audit framework and regulation
- Planning and risk assessment
- Internal control
- Audit evidence
- Review and reporting

Audit framework and regulation

This area of the syllabus requires; an understanding of the functions of an audit, and an understanding of both corporate governance and professional ethics.

Questions in this area may present candidates with a scenario-based ethics or corporate governance question. Candidates are generally asked to identify and explain a set number of issues from a given scenario and give relevant recommendations to address the issues identified. Candidates are awarded 0.5 mark for identifying the ethical threat/corporate governance deficiency and 0.5 mark for explaining the implication of the threat/deficiency. Candidates are awarded 1 mark for each well explained recommendation. In addition, when making recommendations for ethics and corporate governance questions, candidates are reminded that the recommendation must be an action; often candidates provide objectives rather than actions.

'Hurling Co' from the 'Sample March/June 2017 Questions' is a good scenario-based question to practice the skill of explaining ethical issues and making relevant recommendations. 'Freesia Co'

from the 'Sample March/June 2019 Questions' is a good scenario-based question to attempt on corporate governance.

Planning and risk assessment

This area of the syllabus requires an understanding of how the auditor obtains and accepts audit engagements, obtains an understanding of the entity and its environment, assesses the risk of material misstatement and plans an audit of the financial statements.

Questions on assessing audit risks tend to be scenario based; the candidates having to identify and explain the risks from a scenario and give an auditor's response to address the risks. Other questions in this area of the syllabus tend to be more knowledge-based questions and hence depend on the ability of students to recall their knowledge in the exam.

As noted in previous Examiner's reports a fundamental factor in planning and assessing the risks of an audit of an entity is an assessment of audit risk, and this remains a highly examinable area. Audit risk questions typically require a number of audit risks to be identified (0.5 mark each), explained (0.5 mark each) and an auditor's response to each risk (1 mark each). Typically, candidates can be required to identify and explain in the region of six to eight risks and responses.

The scenarios usually contain more issues than are required to be discussed. It is pleasing that candidates planned their time carefully and generally only attempted to list the required number of issues. However, in some instances, although candidates identified a fact from the scenario, they did not understand the audit risk that this gave rise to. For example in 'Harlem Co' from the 'Sample September/December 2019 Questions' the company's intention to restructure the debt finance post year-end gave rise to a manipulation risk in the current year financial statements. Many candidates incorrectly stated that the company had taken out a new loan and therefore the risk of classification needed to be addressed. This was incorrect as Harlem Co had not taken out any loans in the current year. Candidates must take time to carefully read the scenario to ensure they correctly understand the audit risk arising.

As noted in previous sessions, there may be risk factors at the beginning of the scenario in the opening paragraph and also in the closing paragraph. Candidates often miss these. Once again in this session the opening paragraph of a risk question noted that this was a new audit client, many candidates failed to identify the increased detection risk for the current year.

As stressed in previous exam sessions, yet again a significant number of candidates did not explain how each issue could impact on the audit risk and therefore were not awarded the second 0.5 mark. To explain audit risk candidates MUST state the specific area of the financial statements impacted with an assertion (e.g. cut off, valuation etc.), or, a reference to under/over/misstated, or, a reference to inherent, control or detection risk. 'Misstated' was only awarded if it was clear that the balance could be either over or understated. A significant minority of candidates stated the risk was 'under/over stated' when it was clearly one or the other and were not awarded credit. For example, in this session an interest accrual risk was clearly a risk of understated finance costs, candidates who stated interest could be over/understated would not have been awarded credit. A scattergun approach is not recommended.

Candidates must state the specific area of the financial statements impacted, as opposed to a general statement. For example, where a receivable balance is overvalued and potentially irrecoverable, an appropriate explanation would be 'trade receivables are overstated' or 'the allowance for receivables is understated'. No credit would be awarded just for stating 'assets are overstated' or 'profit is overstated'.

An auditor's response does not have to be a detailed audit procedure, rather an approach the audit team will take to address the identified risk. However, in common with previous sessions, auditor responses were sometimes too weak, for example 'discuss with management', or just noted the correct accounting treatment.

In addition, it was noted that some candidates focussed on what management should do rather than the auditor, and/or, gave responses that were inappropriate to the scenario. For example, in this session a scenario stated that 'no supplier statement reconciliations had been performed due to staff shortages at the client'. The scenario also stated that 'the financial controller had agreed that that no supplier statement reconciliations needed to be prepared at the year-end as there was not enough time'. Some candidates recommended as a response that 'management should be asked to perform supplier statement reconciliations.' The scenario had clearly noted this was not a feasible option, so this was an inappropriate auditor response in this instance.

'Peony Co' from the 'Sample March/June 2019 Questions' and 'Harlem Co' from the 'Sample September/December 2019 Questions' are both good scenario-based questions on audit risks and responses to practice.

Audit risks and response questions can also be linked with a knowledge question. Good examples of this are 'Cupid & Co' from the 'Sample September/December 2017 Questions' and 'Blackberry Co' from the 'Sample March/June 2018 Questions'.

It has been noticeable in recent sessions that candidates have not performed well in these knowledge questions and these should be straightforward marks to obtain. Performance in knowledge questions was again disappointing this session. Candidates often did not read the requirements carefully and answers were often too generic. For example, in this session candidates were asked to discuss the benefits of a particular audit task, many candidates just listed what the task would be rather than explaining the benefits of undertaking it. Future candidates are reminded that they MUST revise all areas of the syllabus, spend adequate time learning knowledge areas in preparation for the exam and read the question requirements carefully.

As in previous sessions, in this session an audit risk question was combined with a requirement to calculate specified ratios, these ratios then linked into the risk and responses requirement. Candidates' performance was satisfactory. Some candidates in the December session however attempted to calculate certain ratios that were not possible to calculate, based on the extracts provided.

Additional points to note are as follows:

- Do not calculate more than the required number of ratios as this wastes time

- Do not provide the formula for ratios, as no credit is available.

'Darjeeling Co' from the 'Sample September/December 2018 Questions' and 'Harlem Co' from the 'Sample September/December 2019 Questions' are good questions to practice the skill of calculating ratios and applying these to a risks and responses question.

Internal control

This area of the syllabus requires both an ability to describe and evaluate internal controls, techniques and audit tests, and also an ability to make appropriate recommendations as well as being able to distinguish between the scope of internal and external audit.

Internal control questions typically require internal control deficiencies to be identified (0.5 mark each), explained (0.5 mark each), a relevant recommendation to address the control deficiency (1 mark), and, often a test of control the external auditor would perform to assess whether each of these controls, if implemented, is operating correctly (1 mark). Internal control questions can also include the identification (0.5 mark each) and explanation (0.5 mark each) of key controls as well as tests of controls (1 mark) to assess whether the key controls are operating effectively. Further, answers may be required to be presented in the form of a report to management, in which case a covering letter (2 marks) is required.

Internal control questions often include a knowledge requirement. In common with planning and risk questions, these are relatively straightforward marks and candidates should be attempting to score maximum marks. In this session candidates' performance in these requirements was, as in September 2019, disappointing and noticeably worse than previous sessions. Candidates failed to score many marks, for example when asked to describe components of an entity's internal control system. It is imperative that future candidates ensure that they devote adequate time to learning the knowledge areas of the syllabus as well as practicing this style of question.

Good example questions to practice are 'Comet Publishing Co' from the 'Sample September/December 2017 Questions', 'Raspberry Co' from the 'Sample March/June 2018 Questions', 'Freesia Co' from the 'Sample March/June 2019 Questions' and 'Amberjack Co' from the 'Sample September/December 2019 Questions'.

Internal controls questions remain a highly examinable area and performance in December 2019 was mixed.

The scenarios included in exam questions contain more issues than are required to be discussed. In this session candidates were generally able to identify the required number of points from the scenarios. It was however disappointing that, in common with previous sessions, some candidates were not able to identify key controls. In order to be a key control, candidates need to consider whether the control as described has been appropriately designed and would in fact, if operating effectively, prevent or detect a material misstatement. Many candidates appear to be focussing on only a few words from the scenario and concluding there is a key control rather than reading all of the information provided regarding a specific control activity. For example, in this session candidates identified from the scenario that 'each staff member has a clock card to enter and leave the factory', however this alone is not an effective control. To obtain credit candidates also needed to make reference to the supervision of the clocking in/out process by security staff 24 hours a day. As a further example some candidates stated 'Goods dispatch notes are sequentially numbered'.

However, to be awarded credit for identifying the control, candidates needed to also say 'and regular sequence checks are performed'. For the control to be effective sequence checks must be performed to confirm completeness. The sequential numbering of the documents is not a control in itself.

For the explanation 0.5 mark for key controls, candidates should consider how the control is helping the company prevent or detect misstatements. For example, a key control of receivables ledger control account reconciliations being performed and discrepancies followed up by the financial controller, the explanation should focus on the fact that this ensures that errors in receivables are detected and corrected promptly.

In this session there was also a noticeable increase in the number of answers with irrelevant controls/deficiencies being given. For example, some candidates noted that 'only the production staff were paid overtime and the administration staff were not paid for any overtime', explaining 'this could result in staff being demotivated to work'. No credit was awarded as this is not an internal control deficiency. This increase in irrelevant points seems to stem from a lack of understanding of the scenario and due to a lack of question practice.

In common with previous sittings many candidates did not clearly explain the implication of the deficiencies. It is important that the explanation fully details the impact to the company. As an example, in 'Amberjack Co' from the 'Sample September/December 2019 Questions', a candidate who correctly identified the deficiency 'discounts are manually entered onto the sales invoices' (identification 0.5 mark awarded), would not have been awarded credit for the explanation 'discounts could be unauthorised'. Candidates must clearly explain the implication to the business in sufficient detail. For example a suitable, well-explained implication would be 'this could result in a loss of revenue or loss of customer goodwill'. Many candidates did not go on to fully explain the impact on the company.

Most candidates were able to provide good recommendations to address the deficiencies they identified. However, some of the recommendations were either poorly described, did not clearly address the specific control deficiency identified, were impractical suggestions, or inappropriately suggested how the auditor could undertake the control. For example, no credit was awarded to a number of candidates who suggested as a recommendation that 'the auditor should observe that the client staff are clocking in and out correctly'. Supervision of the staff is not the responsibility of the auditor.

Many candidates just repeated the converse of the deficiency and to obtain the one mark for the recommendation more detail is needed. Additionally, as with ethics and corporate governance questions, recommendations must be actions rather than just objectives.

'Equestrian Co' from the 'Sample March/June 2017 Questions,' 'Camomile Co' from the 'Sample September/December 2018 Questions', 'Freesia Co' from the 'Sample March/June 2019 Questions' and 'Amberjack Co' from the 'Sample September/December 2019 Questions' are good internal control deficiencies and recommendations questions to practice.

As in previous sessions it was disappointing that candidates' descriptions of tests of controls that an auditor should perform were often not well explained (e.g. repeated use of the word "check"), did not address the controls being tested or described substantive audit procedures rather than

tests of controls. In addition, in awarding credit for tests of controls, weak tests such as 'observe' do not score as well as inspection or enquiry type procedures. For some controls it is perfectly acceptable for observation to be used as an audit procedure, such as attendance at an inventory count. However, for testing authorisation controls, the focus should be on inspecting for evidence of authorisation of previous documents rather than observing an individual authorising a document during the audit.

Tests of controls are a key requirement in internal control questions and future candidates must ensure they practice these types of questions in advance of their exam. 'Raspberry Co' from the 'Sample March/June 2018 Questions' is a good question to practice, testing internal control deficiencies and recommendations and key controls and tests of controls.

Audit Evidence

This area of the syllabus requires a description of the work and evidence obtained by the auditor required to meet the objectives of audit engagements and the application of International Standards on Auditing.

A key requirement of this part of the syllabus is an ability to describe relevant audit procedures for a particular class of transactions or event. Overall performance in this key syllabus area in this exam session was once again disappointing.

The December 2019 exam session contained a number of questions in this syllabus section covering a variety of areas across both the statement of profit or loss and statement of financial position, illustrating that candidates must be prepared to tailor their knowledge of substantive testing to any area of the financial statements. In most cases candidates remain unable to tailor their knowledge of general substantive procedures to the specific issues in the question requirements, with many providing tests of controls rather than substantive procedures, or providing incorrect procedures, or concentrating on one type of test e.g. multiple examples of analytical review procedures.

In particular, care must be taken to address the specifics of the question; often the requirement is to describe substantive procedures to address specific assertions, such as valuation, and any tests provided which do not test this assertion would not have scored any marks. For example, in this session a question asked for 'substantive procedures in relation to the valuation of a company's inventory'. Procedures undertaken during the inventory count to establish the existence or completeness of inventory were therefore not awarded credit.

It was also particularly disappointing this session that candidates were unable to audit differences arising in supplier statement reconciliations, with many candidates simply repeating the same tests for each difference given, or giving inappropriate procedures such as 'write to the supplier to re-confirm the balance'. It was also disappointing this session that candidates did not read the requirements carefully. For example, no credit is given for tests of detail if the requirement specifically asks for 'substantive analytical procedures'. Finally, candidates are advised to consider the type of balance being tested to identify appropriate procedures. For example, comparing a provision to the previous year is not a valid audit procedure if the balance is not annually occurring.

Good examples to practice are 'Gooseberry Co' from the 'Sample March/June 2018 Questions', 'Jasmine Co' from the 'Sample September/December 2018 Questions', 'Hyacinth Co' from the 'Sample March/June 2019 Questions' and 'Spadefish & Co' from the 'Sample September/December 2019 Questions'.

As addressed in previous Examiner's reports candidates must strive to understand substantive procedures. Learning a generic list of tests will not translate to exam success – procedures must be tailored to the specific requirements of the question. Additionally, tests must be sufficiently detailed noting clearly which source document should be used. As in previous sessions, a significant number of candidates suggested tests such as 'review disclosures' however this would only have scored 0.5 mark as they did not go on to detail what those disclosures were being reviewed for. Also recommending 'obtain a written representation from management' or 'review board minutes' without explaining what for, for example to ensure completeness/reasonableness of a provision, will not generate any marks.

There are many resources available on ACCA's website which will help you prepare and reviewing these, along with past exam questions, is one of the best ways to help you cover the syllabus and get used to the style of the questions.

Review and reporting

This area of the syllabus requires an understanding of how consideration of subsequent events and the going concern principle can inform the conclusions from audit work and are reflected in different types of auditor's report, written representations and the final review and report.

Questions in this area of the syllabus tend to be scenario based and may require candidates to describe required amendments to the financial statements and/or audit procedures in relation to going concern or subsequent events. 'Spadefish & Co' from the 'Sample September/December 2019 Questions' is a good question to practice.

Alternatively, they can require an assessment of the impact on the auditor's report due to an unresolved accounting issue.

In auditor's report questions candidates are often required to discuss an accounting issue, assess whether the error is material, consider the type of modification, if any, and lastly to discuss the impact on the auditor's report. Answers must clearly state the opinion to be issued (i.e. unmodified opinion or modified opinion), and if the opinion is to be modified, the type of modified opinion which is appropriate (i.e. qualified opinion, adverse opinion, disclaimer of opinion). Candidates are advised to ensure that they are as knowledgeable on modifications caused by insufficient evidence as they are for material misstatements.

Performance in auditor's reports questions this session was mixed. Few candidates provided an adequate discussion of the issue. In order to be awarded the 1 mark for discussing the issue candidates should not just re-write the issue from the question. Candidates need to explain the effect of the item being incorrectly recorded, for example, if this results in assets/liabilities/profit being over/understated. In December 2019 some candidates struggled to calculate the materiality of the error, as it was only the increase in a provision which had not been accounted for correctly.

Candidates should also note that it is not necessary to show the workings of how materiality was calculated, as there is only 0.5 mark available for this.

Unless stated otherwise in the question requirement, candidates should only include the type of modification required if the company does not adjust for the issue in the financial statements. Weaker candidates continue to discuss what the report will look like if the error is adjusted for and if it is not. This is not an efficient use of time and only responses which answer the question will generate marks.

Auditor's reports are a core area of the syllabus and knowledge of the ISAs in this area is imperative. Good questions to practice are 'Airsoft Co' from the 'Sample March/June 2017 Questions', 'Gooseberry Co' from the 'Sample March/June 2018 Questions' and 'Jasmine Co' from the 'Sample September/December 2018 Questions'.

In addition candidates should read the AA Technical Article 'The Auditor's Report'.

Exam technique

Good exam technique is vital for success in Audit and Assurance. It was pleasing to see that many candidates made effective use of the pre-formatted response areas provided which encourages answers to audit risk and internal control questions to be structured in columns. Not only does this make it easier to mark, it makes it easier for a candidate to review their answer and ensure they have covered all of the relevant areas, for example it is clearer to see if a control recommendation has been omitted.

Additionally, it was pleasing that where a question asked for a specific number of issues to be addressed, such as risk and internal control questions, most candidates attempted to identify the required number demonstrating appropriate exam technique and time management.

Once again it was disappointing to see that some question requirements were not attempted. This tended to be in knowledge areas and substantive testing questions. This could have been due to a lack of knowledge or exam preparation.

Candidates need to ensure that their answers relate to the scenario given. In questions requiring a description of substantive procedures these were often too generic. Candidates need to ensure that substantive procedures and tests of control in particular are clearly described as to exactly 'how' the procedure should be performed. Also, an adequate number of procedures must be provided; a five mark question should have at least five well described procedures to maximise the candidates' mark.

Candidates should not re-write the question requirement at the start of each question as this is unnecessary and not an efficient use of time.

Word processing technique

Candidates used the word processing tools available adequately. It was pleasing to see that the length and depth of many answers has continued to significantly expand on previous sessions.

However please note that when answering into a pre-formatted table, while providing bullet points is acceptable, answers must be sufficiently detailed and not 'note like' in order to maximise marks.

Very occasionally, the typed words in some candidates' answers were difficult to understand as the words were misspelt. Candidates are reminded that there is no automatic spelling checker tool available and to try and manage their time appropriately to allow for a review of their answers before submission. Also when reviewing answers look out for omission of key words, for example the omission of the word 'not' can completely change an answer.

There are resources on ACCA's website giving more guidance on how to use the word processing tools. A video introducing the main functionality and how to make best use of these in Audit and Assurance can be accessed via the website.

Guidance and Learning Support resources to help you succeed in your exam

Preparing for the Audit and Assurance exam can appear challenging but there are many resources available to help you. You should refer to these throughout your studies.

You should make sure you have made use of all of the resources found under technical articles for AA – these include technical articles, study support videos and exam technique resources – all developed with you in mind.

Additionally [Examiner's reports](#) are available after each exam session. These are a valuable tool for understanding the exam, avoiding common pitfalls and developing exam technique. Work through the Audit and Assurance resource 'Examiner's approach' and also 'A guide to using the examiner's report' if you are sitting the exam for the first time or 'A guide to reflection' if you are retaking your exam. Both of these interactive tools can be found under the [technical articles page](#) for Audit and Assurance. These have been developed to sit alongside the self-study guide and the [retake guide](#) respectively, and provide you with further pointers for using the Examiner's reports for previous sittings.

It is essential to practise as many exam standard questions as you can in the lead up to your exam, this is critical for Audit and Assurance as 70% of the marks are written. We strongly recommend that you use an up to date question and answer bank from one of our [Approved Content Providers](#).