



Examiner's report

Audit and Assurance (AA)

September 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 September 2019 examination included, but was not limited to, questions on the following areas:

- Professional ethics and application of ACCA's Code of Ethics and Conduct
- Substantive procedures including bank and cash, share capital and inventory
- Audit finalisation and review

- Auditor's reports

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 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 have been assigned to the audit of bank and cash for X Co. X Co has a number of bank accounts and due to the nature of its business will hold a significant amount of cash at head office at the year end.

Which of the following audit procedures included in the audit programme will test for EXISTENCE of bank and cash?

- A. Agree a sample of accounts detailed on the bank confirmation letters to the trial balance
- B. Review all relevant bank statements to verify that the accounts are held under X Co
- C. Attend the cash count at the year end and reperform the count
- D. Review the disclosure included in the financial statements to verify only bank accounts per the bank letters are disclosed

The correct answer is C.

This question tests audit procedures relevant to bank and cash but also an ability to relate procedures to a specific assertion. It demonstrates the importance of understanding why a procedure is performed and the specific objective which it achieves.

By attending the cash count and reperforming the count the auditor is able to physically verify the existence of the cash. Agreeing a sample of accounts detailed on the bank confirmation letters to the trial balance provides evidence of completeness of bank and cash balances. Reviewing bank statements to verify that they are in the name of the company provides evidence of rights and obligations and the review of disclosures provides evidence relating to presentation.

Example 2

One objective of the final overall review stage of the audit is to ensure that the evidence gathered in the course of the audit supports the audit opinion.

Which of the following questions, which are answered as part of the final review, support this objective?

- (1) Was the audit plan suitably modified to allow for changing circumstances?
- (2) Has the audit firm's continued independence been considered?
- (3) Have all deficiencies in internal control been communicated to management?
- (4) Has work been performed in accordance with relevant auditing, legal and professional standards?

- A. 1 and 4
- B. 1 and 2
- C. 2 and 3
- D. 3 and 4

The correct answer is A.

This question demonstrates the need for candidates to have a thorough understanding of all aspects of the syllabus. While the topic of auditors' reports is an important one, candidates are reminded that section E of the syllabus also includes subsequent events, going concern, written representations and audit finalisation and the final review.

Revising the audit plan to allow for changing circumstances helps to ensure that sufficient and appropriate audit evidence is obtained. Performing audit work in accordance with relevant auditing, legal and professional standards enhances the quality of the audit work and therefore the evidence on which the audit opinion is based. The audit firm should ensure that it remains independent throughout the audit and the auditor is required to communicate deficiencies which are of sufficient importance to merit management's attention. However, neither of these issues has a direct effect on the evaluation of audit evidence at the review stage and its suitability for providing the basis for the audit opinion.

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. In this session, candidates were asked to identify conflicts of interest from a scenario and suggest appropriate safeguards. Candidates are awarded 0.5 mark for identifying the ethical threat/corporate governance weakness and 0.5 mark for explaining the implication of the threat/weakness. 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.

In addition questions in this area can include stand-alone knowledge based requirements, covering areas such as confidentiality or assurance, that do not need to be applied to the scenario provided. In answering knowledge questions it is important to ensure that an adequate level of detail is provided, as often these questions are answered too briefly, almost in a note format. It is also important to identify the requirement verb, as ‘describe’ or ‘state’ require completely different levels of detail to be provided.

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. A point to note however, is that there may be risk factors at the beginning of the scenario in the opening paragraph and also in the closing paragraph. Candidates are often missing these. Once again in this session the opening paragraph of a risk question stated 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. This shotgun 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. In common with previous sessions, auditor responses were sometimes too weak e.g. 'discuss with management' or 'obtain a breakdown and confirm it is reasonable'. 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 financial controller was dismissed after fraudulently claiming expenses from the company, some candidates focused on recommendations for who could replace the financial controller. This is an inappropriate auditor response and so would have gained no marks as it addresses the issue from the perspective of the company and not the audit. 'Peony Co' from the 'Sample March/June 2019 Questions' is a good scenario based question 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. In this session, however, it was pleasing to see that performance in these knowledge questions was noticeably improved. Candidates performed well across the board, with the exception of the auditor's responsibilities under law and regulations. Future candidates are reminded that they MUST revise all areas of the syllabus and spend adequate time learning knowledge areas in preparation for the exam.

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 tend to score well in calculating ratios however at this session, while candidates performed satisfactorily in some of the ratios, the requirement to calculate interest cover and gearing was poorly answered. 'Darjeeling Co' from the 'Sample September/December 2018 Questions' is a good question to practice the skill of calculating ratios and applying these to a risk and response question. 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.

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 disappointing and noticeably worse than previous sessions. Across all questions, which included knowledge of control objectives, internal audit and internal control limitations, candidates failed to score many marks. A combination of a lack of knowledge and failure to answer the question asked contributed to the low marks. 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' and 'Freesia Co' from the Sample March/June 2019 Questions.'

Internal control questions remain a highly examinable area and performance in September 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. However, it was noticeable this session that some candidates were unable to correctly identify the deficiency from the scenario. They were able to pick the relevant fact from the scenario but failed to spot what the actual deficiency was. For example, candidates identified from the scenario 'the payroll system automatically calculates gross and net pay' but did not understand that the actual issue was that the system calculations were not checked for accuracy. Additionally, in this session there was a noticeable increase in the number of answers including irrelevant deficiencies. For example, in the payroll system, weaker candidates identified that 'some employees are paid in cash and some by bank transfer' as giving rise to a deficiency of the system, it is not, and hence did not gain any credit. This increase in irrelevant points seems to stem from a lack of understanding of the scenario and 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, for a deficiency of "overtime reports are not reviewed before payment to employees" a suitable, well-explained implication would be "this could result in the payment of unauthorised overtime". 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 or were impractical suggestions. 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' and 'Camomile Co' from the 'Sample September/December 2018 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. Comet Publishing Co' from the 'Sample September/December 2017 Questions', 'Raspberry Co' from the 'Sample March/June 2018 Questions' and 'Freesia Co' from the 'Sample March/June 2019 Questions' are good questions to practice including internal control deficiencies and recommendations, tests of controls and key 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 September 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 financial statement assertions, such as valuation, and any tests provided which do not test this assertion would not score any marks. For example, in this session a question asked for substantive procedures in relation to the disposal of a company's plant and machinery. Generalised procedures for the audit of property, plant and equipment were therefore not awarded credit. It was also particularly disappointing this session that candidates were unable to audit exceptions noted in receivables and payables circularisations, with many candidates simply repeating the same tests for each exception given.

A good example to practice is 'Dashing Co' from the 'Sample September/December 2017 Questions' and 'Hyacinth Co' from the 'Sample March/June 2019 Questions'.

In addition candidates should read the AA Technical Article 'The Audit of Financial Statement Assertions'.

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' without explaining what for, for example to ensure completeness/reasonableness of a provision, will not generate any marks.

Other good examples of substantive procedures questions to practice are 'Gooseberry Co' from the 'Sample March/June 2018 Questions' and 'Jasmine Co' from the 'Sample September/December 2018 Questions'.

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

This session candidates were required to consider going concern indicators and procedures. Generally, candidates tend to score well in this area. Weaker candidates were able to identify the indicators a company was not a going concern for 0.5 mark, but then struggled to explain in sufficient detail why this indicated going concern difficulties for the other 0.5 mark, instead commenting repeatedly that "this will lead to cashflow issues". Most candidates were able to generate a sufficient number of going concern procedures, suggesting that candidates have a solid understanding of this area.

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 satisfactory. There continues to be a slight improvement in that some candidates provided a discussion of the issue, which scored up to 1 mark. In order to be awarded marks 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. Weaker 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 candidate's mark.

Word processing technique

Candidates used the word processing tools available adequately. It was pleasing to see that the 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](#) but if this is not possible then work through the most [recent past exams](#) on our website. However, please note if you are using the past exams that these are not updated for syllabus changes or changes to the exam format since September 2016 and so should be used with caution – so check the [latest syllabus and study guide for changes](#).