



Think Ahead

Advanced Audit and Assurance (AAA) March/June 2023 Examiner's 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 those sitting the exam in the future.

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General comments

This examiner's report should be used in conjunction with the published June 2023 exam which can be found on the [ACCA Practice Platform](#).

In this report, the examining team provide constructive guidance on how to answer the questions whilst sharing their observations from the marking process, highlighting the strengths and weaknesses of candidates who attempted these questions. Future candidates can use this examiner's report as part of their exam preparation, attempting question practice on the [ACCA Practice Platform](#) and reviewing the published answers alongside this report.

Format of exam

The examination comprised two sections, A and B. Section A consisted of one compulsory question for 50 marks in total. Section B consisted of two compulsory questions for 25 marks each. Out of this total of 100 marks across sections A and B, 20 marks were available for professional skills related to communication, commercial acumen, analysis and evaluation, and professional scepticism and judgement. 80 technical marks were available for applying appropriate technical knowledge in response to the requirements.

Section A

Question 1 – Encore

Format of the question

This question was a typical Section A question set at the planning stage, with requirements focused on matters specific to the planning stage of an audit engagement, with initially an evaluation and prioritisation of the risks of material misstatement. Part B focused on why inventory had been identified as a significant risk of material misstatement and required candidates to justify what the key issues are, accompanied by a request for appropriate audit procedures. Finally, there was a requirement focused on ethical and professional issues. The Section A question is typically where candidates perform best and there have been more focused answers in recent sessions. It is pleasing to see that many candidates appeared to have taken note of the guidance provided by the examining team in this area.

The company in the scenario was based around a new client of the firm, with the core business being the design and building of boats used in the fishing industry, with each boat made to specific customer order.

Candidates should note that they are not expected to have detailed industry specific knowledge when answering questions in this examination and the scenario will always have enough information to enable sufficient specific risks to be identified and evaluated to achieve full marks.

Several exhibits were provided to candidates to enable them to develop an understanding of the specific issues relevant to the audit. These were as follows:

1. Partner's email – an email which you have received from Isabella Phoenix, the audit engagement partner.
2. Background information – information relevant to the audit planning.
3. Notes from meeting – summary of matters discussed at a recent meeting between the company's finance director and the audit engagement partner.
4. Inventory – a note from the audit engagement partner containing details relevant to planning the audit of inventory.
5. Finance director requests – two requests regarding an additional service and a loan guarantee they would like Garrick & Co to consider.

In this question, the partner's email clearly specified which exhibits should be considered when carrying out the different requirements. While it is often the case that there will be interactions between the exhibits which will impact on the analysis performed by candidates, it is imperative that candidates follow the instructions provided to ensure they can maximise their mark and reduce any wasted time or effort. In this question candidates were advised to use Exhibits 1-3 only for requirement (a)

and to NOT consider the risk of material misstatement in relation to inventory at this stage as this was the focus of requirement (b). Candidates who considered inventory as a risk in part (a) did not score the professional skill mark for following the instructions as set out by the partner's email.

As always, candidates are encouraged to spend adequate time planning and aim to obtain a holistic view and understanding of the issues present in the question. It is recommended that candidates review all the exhibits while planning their answers to the question but as mentioned should ensure they take note of any guidance given by the examining team.

Exhibit 1 – Partner's email

In a Section A question, the partner's email will always set out the detailed requirements which are to be answered and the mark allocation. It is recommended that candidates refer to the partner's email first to ensure that they understand what they are being asked to do and the best way to allocate their time to each requirement.

To: Audit manager
From: Isabella Phoenix, Audit engagement partner
Subject: Audit planning for Encore Co
Date: 1 July 20X5

Hello

I have provided you with some information which you should use to help you with planning the audit of Encore Co, our new audit client, for the financial year ending 30 September 20X5. When determining materiality, please use revenue as your basis. I have concluded that revenue is an appropriate basis for materiality, as the company's revenue has historically been stable.

I require you to prepare briefing notes for my own use, in which you:

- (a) Using Exhibits 1–3, evaluate and prioritise the significant risks of material misstatement to be considered in planning the audit.

Note: You are NOT required to consider risks of material misstatement relating to inventory at this point, as this will be dealt with in part (b) below.

(18 marks)

- (b) Using Exhibits 3 and 4,

- (i) Justify why inventory has been identified as a significant risk of material misstatement; and
(ii) Design the audit procedures which should be included in the audit plan to address those risks.

(14 marks)

- (c) Using Exhibit 5, evaluate any ethical and professional issues raised and recommend any actions to be taken by Garrick & Co.

(8 marks)

Thank you

The requirements of this question were split into three parts. Part (a) of the question required candidates to evaluate the significant risks of material misstatement relevant to planning the audit. Part (b) asked candidates to **justify** why inventory was deemed a significant risk of material misstatement and to design relevant audit procedures to address the risks. Part (c) asked candidates to evaluate the ethical and professional issues along with recommended actions to be taken in response to the client requesting the auditor perform additional work on internal controls and to provide a financial guarantee.

Professional skills marks were available for all four of the professional skills associated with the syllabus.

General comments

Well-prepared candidates scored good marks on this question, particularly when focusing on the information within this specific scenario. Where a candidate prepared an answer tailored to the scenario and focused on the requirement, high technical and professional skills marks were awarded.

Some candidates continued to produce brief, generic answers which were not tailored to the specific scenario and, therefore, did not achieve high technical or professional skills marks. This exam requires candidates to demonstrate technical knowledge which is applied to this specific scenario. Generic responses with speculative risks which are not evident from the detail provided in the scenario will gain little credit. Candidates should use the specific information provided within the scenario demonstrating both knowledge and application of skills to pass each requirement.

Requirement (a) – 18 marks

(a) Using Exhibits 1-3, evaluate and prioritise the significant risks of material misstatement to be considered in planning in the audit.

Candidates were instructed to not consider the risks of material misstatement relating to inventory as this is dealt with in part (b).

This requirement is typical in volume and nature to many planning questions and examines a major area of the syllabus – risk. Candidates were required to **evaluate and prioritise** the significant risks of material misstatement, not simply offer a list of risks, nor a strategy or procedures to address those risks. In determining which risks are the most significant, candidates are demonstrating an understanding of risk, how it arises and how the audit will focus on those issues most likely to cause a material misstatement. Candidates that demonstrated a **depth of evaluation** were awarded more credit than those with more generic responses.

An issue that arises repeatedly is that many candidates are still attempting to find nine risks for an 18-mark requirement, at the expense of conducting little or no in-depth analysis of any of them. This will not be sufficient to attain a pass mark. This means some of the risks stated in these answers will be speculative or not significant and, therefore, will not obtain credit.

This also results in significant and unnecessary time pressure for candidates as they are trying to cover too many risks in the time they have available.

Candidates are expected to perform relevant analysis to support an evaluation of risks of material misstatement (RoMMs). There were 18 technical marks available in this part of the question, in addition to a significant number of professional skills marks for the analysis. It was disappointing to see that candidates often achieved strong marks in this section for the **identification of the RoMMs**, but fewer candidates obtained the professional and technical credit for the **evaluation of those risks**. It is important that candidates refer to the specific information providing more in-depth answers, as well as assessing the scale of the risk in the context of the specific audit client.

Once again, examples seen by the examining team that do not attain credit included risks that don't arise at all in the scenario such as a revenue recognition on customer contracts which is not deemed a significant risk of material misstatement. This is a speculative risk which will not gain credit.

Evaluation of the risks

The scenario contained information which gave rise to six significant risks, of which the majority of candidates were able to identify at least five. These were the risk surrounding lack of controls around payroll, the indicator of impairment from the storm damage, capitalisation of the historic boat, specific issues around Encore Co being a new audit client and analytical review of revenue and operating expenses.

Each of these risks could be evaluated in the context of the scenario using the information provided, ensuring that the underlying accounting treatment was correct. In this exam, financial reporting knowledge from the SBR syllabus and previous FR and FA exams is assumed knowledge. The majority of marks available in AAA will be for the application of the financial reporting knowledge to the specific audit scenario, not simply for the knowledge itself.

It is pleasing to see many candidates were able to focus on the risks arising, describing the impact of the risks on the financial statements. However, a much smaller proportion of candidates demonstrated a thorough understanding of the impact of these risks, which requires strong financial reporting knowledge. As already mentioned, candidates must ensure that their financial reporting knowledge is at the required standard (Strategic Business Reporting) prior to sitting their AAA exam.

Some candidates are struggling to demonstrate more basic reporting knowledge, such as that relevant to IAS® 16 *Property, Plant and Equipment* which was examined at both FAU and AA examinations.

In this exam, stronger candidates identified that the gifted historic boat on display at the client's site did not meet the definition of property, plant and equipment ("PPE") as this asset was not being used in the operations of the business to generate economic benefit for the company, and therefore recognition of the boat as PPE would overstate assets. Candidates were awarded professional skills marks where they demonstrated professional scepticism regarding the capitalisation of the boat as a non-current asset. A few candidates also noted that the gift of the boat was a contribution from a shareholder and therefore could have been recognised within equity. Very few candidates demonstrated the appropriate accounting knowledge and therefore interpreted the impact of the risk incorrectly.

Weaker candidates often discussed the implication of the risk without attempting to evaluate the scale of the risk. Typical responses by candidates who did not score sufficient credit to pass the exam would simply state something which had occurred in the scenario, such as "the storm had caused damage and therefore the assets may be misstated".

The majority of candidates discussed the risk around Encore Co being a new client from the perspective that detection risk would increase. However, as the requirement was for an evaluation of RoMMs, candidates were only awarded credit for the new audit client risk if they specifically connected this to the risk that opening balances and comparatives may be incorrect due to the significant control weaknesses present at the client. Thereby focussing on the fact that there was a high-level control risk rather than explaining it as a detection risk. Candidates are once again reminded that they must consider and respond to the specific detail in each scenario, rather than provide a generic answer point.

Consistent with the December 2022 examination, it was disappointing to see that few candidates attempted any prioritisation of the risks as specifically requested in the requirement for part (a). Professional skills marks were available to the candidates who attempted this requirement. Candidates were expected to identify the most significant risks, and then provide a brief justification for their choice. Again, credit was awarded for candidates who offered a reasonable explanation, and therefore, a range of possible explanations are valid. Candidates should be aware this mark is for the act of attempting to justify the reasons for the prioritisation, and therefore the Examining Team are not looking for a single 'correct' reason. Candidates can obtain these marks by either ordering their answer in priority order **and stating this is the case** or by summarising in a brief conclusion which risk, or risks, are most significant. Where candidates use this latter method, if a candidate does not state which one or two risks are the most significant but simply lists some or all their identified risks, this will not be sufficient for credit.

Overall, in this section many candidates were able to identify sufficient risks to pass the requirement. Fewer candidates identified the risk of material misstatement of the joint arrangement and many candidates incorrectly discussed revenue recognition as a significant risk, even though there was nothing in the scenario to suggest this was an issue. In summary, candidates did not seem to have difficulty in identifying risks and the implication on the financial statements; however, the differentiator between stronger and weaker candidates was their ability to evaluate the risks and demonstrate their professional skills of commercial acumen and professional scepticism.

Materiality

Specific marks were available in this requirement for the calculation and application of materiality in line with the syllabus guidance.

Candidates are expected to initially determine a materiality threshold for the audit, as would be used in practice. Three technical marks are available for the materiality determination. Candidates are expected to demonstrate a knowledge of the appropriate percentage range for the benchmark instructed by the audit partner (in this question, revenue was to be utilised with candidates expected to use 0.5-1% as their range) and calculate the monetary amount in respect of the range. Candidates must then use their professional judgement to select an appropriate materiality threshold given the risk levels which exist in the audit and provide a brief justification for their choice. Each of these steps examines a different aspect of the understanding and skills required of an auditor.

It was disappointing that some candidates failed to note the specifics of the scenario where there was instruction to calculate materiality based on revenue and calculated materiality based on profit. The examining team will credit the calculation based on 'follow through' rules, but credit will be lost for the use of the incorrect benchmark. It was also disappointing to note the number of candidates who were unable to correctly calculate 0.5% - 1% of revenue, and therefore calculated an incorrect materiality figure that rendered all of the risks in the question immaterial. This resulted in candidates losing the marks available for correctly calculating materiality based on a benchmark and these candidates also failed to gain the professional mark for applying materiality throughout the question. Candidates are encouraged to sense check their calculations as it would not be feasible that exam questions testing significant risk of material misstatement would contain issues which are all immaterial.

It was also disappointing to note that some candidates initially calculated a range appropriately, but then failed to justify a materiality threshold for the audit. The examining team will give credit for any reasonable explanation of the chosen materiality threshold, as the mark is to recognise that there is the application of professional judgement and that a candidate can justify their response. It is not required that candidates select the identical percentage or figure, or that they provide

a justification identical to that shown in the model answer. For example, in this question, some candidates stated the lower end of the range was justified because this was a new client, and the audit firm would lack the knowledge and experience.

Requirement (b) – 14 marks

Using Exhibits 3 and 4:

Part (bi) Justify why inventory has been identified as a significant risk of material misstatement; and

Part (bii) Design the audit procedures which should be included in the audit plan to address those risks

This requirement enabled candidates to focus their answer on a specific area of the financial statements and enabled stronger candidates to demonstrate technical skills as well as professional skills relating to analysis and evaluation, and professional scepticism. Part (b)(ii) required candidates to design audit procedures to the specific issues discussed in their answer to (b)(i). This type of connected requirement should enable candidates to consider and plan their procedures while justifying the issues in relation to the inventory of Encore Co.

Many candidates correctly identified risks relating to inventory such as subjective judgements surrounding the work in progress (“WIP”) calculations made by management and controls surrounding payroll (from part a) resulting in incorrect costs being recorded in WIP calculations. It was encouraging to note that a number of candidates recognised that the finished boats awaiting collection should be removed from inventory and recognised as revenue as the sale of these boats had taken place.

Weaker candidates discussed generic valuation risks such as net realisable value (“NRV”) falling below cost yet failed to link it to the specifics of the question.

Another common mistake was candidates discussing inventory having become obsolete, failing to link it to the fact that the company is a boat designer and builder and made boats to order. Therefore, obsolescence was not wholly relevant in the context of this question.

The examining team were looking for specific procedures linked to the scenario, and therefore credit was not awarded for generic inventory testing that is not deemed relevant to the company-specific risks. Weaker candidates discussed requiring an expert to confirm the condition of raw materials, which would not be relevant in the context of this scenario.

Stronger candidates designed procedures specifically linked to the risks such as agreeing samples to purchase invoices to determine the cost of raw materials, agreeing samples of costs to supporting documentation to assess the value of WIP

and reviewing the overhead allocation to determine the accuracy of the WIP calculations.

Requirement (c) – 8 marks

(c) Using Exhibit 5, evaluate the ethical and professional issues raised and recommend any actions to be taken by Garrick & Co.

Part (c) required candidates to evaluate the ethical and professional issues regarding the client's request for the firm to conduct a detailed review of some of the internal controls (not relating to the financial reporting process) and to recommend improvements to be made. The scenario noted the client had suggested that the fee for the additional work should be included within the audit fee.

The second issue related to the company applying to the bank for additional finance and requesting that Garrick & Co provide a guarantee for the finance.

Stronger candidates identified the client requesting the fees to be included within the audit fee was unacceptable and that any additional work performed should be a separate engagement, with an appropriate and separate fee. A number of candidates also recognised the additional work was not prohibited for a non-listed company, and as it related to controls outside of the financial reporting process, the service could be provided so long as safeguards were implemented, with candidates correctly recognising that a separate team would be required.

Weaker candidates failed to recognise that the additional service may be provided and therefore suggest that the service be declined as it is prohibited. Most candidates were able to correctly recognise that the audit firm was prohibited from providing the loan guarantee.

Overall professional skills marks

In addition to the professional skills marks described within the different sections of the question, three marks were available for communication overall. These marks were awarded for the use of a report header and introduction, presentation and relevance of answer and clarity of explanations. The majority of candidates achieved maximum marks in this area.

Section B

Question 2 – Slaindar

Requirement (a) – 12 marks – International and Singapore Exams

Using Exhibit 1

(a) Evaluate the matters in respect of quality management to be considered by Gloop & Co before accepting Slaindar Co as a client of your firm.

Note: You have already performed the necessary client identification procedures.

(12 marks)

The requirement related to the matter of quality management to be considered before acceptance of the client for a non-audit engagement. The company was not an audit client of the firm.

Generally, this was a well answered question regarding acceptance. Most candidates scored credit for the general acceptance considerations relating to prospective financial information (“PFI”) assignments.

Stronger candidates discussed the ethical considerations and performed well. Many still discussed self-review even though candidates are told that the company is not an audit client. Therefore, this threat was not relevant and failed to score credit. This demonstrates that many candidates failed to read the requirement sufficiently and only demonstrated rote-learned knowledge for ethics, failing to apply it to the given scenario.

Weaker candidates demonstrated a lack of knowledge by approaching the requirement in respect of a new **audit** client, rather than a client who was looking for an independent review of a cash flow forecast. Many candidates discussed in length significant comments relating to going concern from an audit perspective, but these comments were irrelevant in the context of the scenario. It was disappointing to note a number of comments relating to discussing issues with TCWG. The company was owner managed and the owner was technically in charge of governance. This demonstrates a lack of understanding of company structure.

Many candidates failed to reach a conclusion regarding whether to accept or decline the assignment and therefore failed to score credit. It was noted that a number of candidates discussed either ethical issues or integrity points without discussing both, therefore failing to score full credit. Professional skills marks were often not obtained for professional scepticism whereby candidates failed to discuss client integrity.

Requirement (a) – 12 marks – UK and Ireland Adapted Exams

Part (a)(i) Describe the processes of wrongful and fraudulent trading and evaluate whether Aaron Slaindar could be held liable of either offence.

**Note: You are not required to comment on the tax implications of the scenario.
(7 marks)**

Part (a)(ii) Discuss the matters and actions in respect of the integrity and ethical values of Aaron Slaindar which should be considered when determining whether to accept Slaindar Ltd as a client of your firm.

**Note: You have already performed the necessary client identification procedures.
(5 marks)**

Part (a)(i) of the requirement for the UK and Ireland adapted versions varied from the International and Singapore exams with the requirement asking for definitions linked to the scenario regarding wrongful and fraudulent trading (referred to as reckless trading in Ireland) under insolvency regulations.

Generally, candidates scored well where the discussions between wrongful and fraudulent trading (Ireland: reckless trading) were defined correctly as well as the implications that could be imposed and they attempted to apply it to the scenario.

Weaker candidates demonstrated confusion between the definitions, and some attempted the question from an incorrect direction, referring to and discussing money laundering, even though this was not relevant to the requirement. Several candidates discussed wrongful and fraudulent trading yet failed to give a definition of either term and therefore achievable marks were lost.

Part (a)(ii) was generally a well-answered requirement with many candidates discussing the integrity of the client and evaluating why the client had not instructed the existing auditor and acknowledging this poses a potential issue. Several candidates discussed the need to contact the existing auditor with permission from the client.

Candidates who discussed client identification procedures were not awarded credit as the requirement clearly stated that client identification procedures ("Know Your Client") had already been performed and were therefore not relevant to the requirement.

Requirement (b) – 8 marks

(b) Evaluate the assumptions used by management and the completeness of the cash flow forecast prepared, explaining why particular assumptions should be challenged and approached with professional scepticism.

(8 marks)

The requirement dealt with evaluating the assumptions used in the cash flow forecast and why the assumptions should be challenged and approached with scepticism.

Generally, this was a well-answered requirement by candidates, demonstrating tailored comments to the cash flow forecast, and not approaching the requirement from a substantive audit procedures angle, which was encouraging.

Weaker candidates demonstrated poorer understanding often providing the procedures to be performed or stating that non-cash items such as depreciation had been omitted (which are irrelevant in a cash flow forecast) yet there was no reference in the scenario to suggest this had not been dealt with correctly. Weaker candidates failed to apply knowledge to the assumptions given in the scenario and answered using a more generic approach.

Question 3 – Crawley

Crawley & Co was a 25-mark question set at the completion stage for two audit clients. The question consisted of two requirements with part (a) split into two sub sections, firstly discussing whether the two internal control matters identified should be discussed with Those Charged With Governance (“TCWG”) and management of Violet Co, and secondly, to recommend matters to be included in the report to TCWG and to justify why they are included. Part (b) required candidates to critically evaluate an extract of the Key Audit Matters (“KAM”) section of the auditor's report which had been drafted for Branson Co. Professional skill marks were available for analysis and evaluation, professional scepticism and judgement and commercial acumen.

Requirement (a) – 12 marks

Using Exhibit 1

(a)(i) Discuss and justify whether the two internal control matters should be included in your communication to Those Charged With Governance and Management of Violet Co in respect of deficiencies in internal control.

(5 marks)

(a)(ii) Using the file note prepared by the audit supervisor recommend the matters to be included in your report to Those Charged With Governance of Violet Co and explain the reason for their inclusion.

(7 marks)

Answers to this question were generally poor. A significant number of candidates merely repeated the deficiency from the scenario and stated that it was a deficiency in internal control and should be reported, without providing any reason **why** it would be reported. Candidates may have stated, for example, that this deficiency may lead to an increased risk of fraud. Therefore, many responses were merely repeating the scenario with little or no development. This limited the number of technical and professional skills marks that could be achieved, due to candidates failing to discuss whether the issues would be reported and justifying why they would be reported.

Stronger candidates did identify the point that even though the deficiency in internal control in relation to payroll was deemed immaterial, it could be an indicator of a wider control issue. Stronger candidates identified the asset retained by the managing director on leaving the company was an indicator of fraud and, even though it may be quantitatively immaterial, it is deemed to be material by nature and therefore required reporting.

Part (a)(ii) required candidates to recommend the further matters which should be included in the report to TCWG and to explain why the issues should be included.

Generally, candidates identified the need to report the delay that had been caused due to the information not being available and identified that this would impact the audit efficiency and the fee. Professional marks for application of scepticism were available and linked to the increase in the audit fee and lack of efficiency also.

A significant number of candidates failed to explain the implication of deficiency in controls identified at the client in the previous year which have yet to be rectified.

Many candidates incorrectly stated the change in accounting policy regarding the treatment of the company's properties from a historical cost basis to revaluation required a retrospective adjustment. This demonstrated a significant lack of knowledge regarding IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and that a change in accounting policy regarding the revaluations of non-current assets does not have to be applied retrospectively.

As in part (a), many candidates merely stated what would be reported but failed to sufficiently explain **why** it would be reported. This area of the syllabus continues to be poorly answered by candidates yet forms a critical element of the completion and reporting process of the audit.

Requirement (b) – 8 marks

Using Exhibit 2:

(b) Critically appraise the key audit matters (KAM) extract from the auditor's report on the financial statements of Branson Co for the year ended 31 May 20X5.

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

(8 marks)

This requirement asked candidates to critically evaluate the extract of the KAM section included in the scenario.

A number of candidates listed out everything that was missing from "the auditor's report", yet this failed to meet the requirement, as candidates were asked to critically appraise an extract not the entire auditor's report. Answers which, therefore, discussed that the title and addressee were missing and that the audit partner had not signed the report were irrelevant and were not awarded credit. Candidates must read the requirement carefully and focus their attention on critiquing the extract provided. This wastes time which could be spent providing a more detailed and focused answer.

It was noted that some candidates also wasted time re-drafting paragraphs, which again is not relevant and not required, as re-drafting an auditor's report does not form part of the syllabus. The requirement specifically stated that candidates were not

required to re-draft wording, and therefore credit was not awarded. Again, candidates are reminded to take notice of the detailed guidance provided by the examining team.

Stronger candidates identified that the KAM section should be used to explain matters, which are in the auditor's professional judgement, to be of most significance in the audit. Most notably, it should explain **why** the matter was of most significance and **how it was addressed in the audit**. The extract provided in the exam uses the KAM as a tool to explain the issues that the auditor wishes to draw the user's attention to, but they have not explained what was done to address these risks during the audit. In summary, the KAM section has been used for the wrong purpose in this scenario.

Stronger candidates identified that an uncertainty in going concern should be discussed within the Material Uncertainty Regarding Going Concern ("MURGC") section, provided that the uncertainty is sufficiently disclosed in the notes to the financial statements by the client. It was disappointing to note a number of candidates continue to state that the uncertainty regarding going concern in this scenario should be discussed in an Emphasis of Matter paragraph. This would only be appropriate where the company is no longer assessed to be a going concern, which is not the case in this scenario.

Weaker candidates discussed that the auditor's opinion should be modified and discussed the opinion and basis of opinion paragraph, yet the scenario clearly stated the client had disclosed the uncertainty in the notes and inferred the auditors were confident the client treatment was reasonable. Therefore, such comments relating to incorrect opinions and discussions of pervasiveness were not relevant to the requirement and did not score credit.

Professional skill marks were available for commercial acumen, yet very few candidates scored these marks as they failed to demonstrate appropriate recognition of the wider implications to the audit firm. Marks were also available for analysis and evaluation which were generally awarded to stronger candidates who successfully answered the requirement by tailoring their critique to the extract, explaining why it was an issue and how it should be correctly dealt with.

Overall

The performance of candidates in these questions is broadly in line with past sessions. There continues to be a gap between candidates capable of demonstrating audit competence through **strong application of knowledge and concepts to practical scenarios**, and those who approach the examination as a factual exercise and fail to tailor their answers to the scenarios or do not show professional scepticism or commercial awareness.

[Practice of past questions](#) will aid candidates in determining their knowledge gaps and give practice at applying their knowledge to the given scenarios. It is essential that candidates review their answers and compare these to the scenario specific explanations given in the model answers. This question practice needs to be built upon a good knowledge of the syllabus gained by achieving strong pass marks in the Audit and Assurance (AA), Financial Reporting (FR) and the Strategic Business Reporting (SBR) examinations.

Candidates are encouraged to develop a wider appreciation of the significance of risks by reviewing published auditor's reports of listed companies where the auditor produces a key audit matters ("KAM") section. This will allow candidates to see real world explanations by auditors of why something was a specific risk to a specific client.

Information and guidance on the introduction of professional skills marks for AAA is available as part of the [study resources on the ACCA website](#).