

ACCA

Applied Skills

Audit and Assurance (AA)

Study Text

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We are committed to diversity, equality and inclusion and strive to deliver content that all users can relate to.

We are here to make a difference to the success of every learner.

Clarity, accessibility and ease of use for our learners are key to our approach.

We will use contemporary examples that are rich, engaging and representative of a diverse workplace.

We will include a representative mix of race and gender at the various levels of seniority within the businesses in our examples to support all our learners in aspiring to achieve their potential within their chosen careers.

Roles played by characters in our examples will demonstrate richness and diversity by the use of different names, backgrounds, ethnicity and gender, with a mix of sexuality, relationships and beliefs where these are relevant to the syllabus.

It must always be obvious who is being referred to in each stage of any example so that we do not detract from clarity and ease of use for each of our learners.

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[https://docs.google.com/forms/d/1Vc4mltBPrfViy8AhfyKcJMHQKBmLaLPoa\\_WPqFNf4MI/edit](https://docs.google.com/forms/d/1Vc4mltBPrfViy8AhfyKcJMHQKBmLaLPoa_WPqFNf4MI/edit)

We will seek to devise simple measures that can be used by independent assessors to randomly check our success in the implementation of our Linguistic Equality, Diversity and Inclusion Policy.

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# Introduction

This document references IFRS<sup>®</sup> Accounting Standards which are authored by the International Accounting Standards Board (the Board), and published in the 2023 IFRS Standards Red Book.

## How to use the materials

These Kaplan Publishing learning materials have been carefully designed to make your learning experience as easy as possible and to give you the best chances of success in your examinations.

The product range contains a number of features to help you in the study process. They include:

- (1) Detailed study guide and syllabus objectives
- (2) Description of the examination
- (3) Study skills and revision guidance
- (4) Study text
- (5) Question practice

The sections on the study guide, the syllabus objectives, the examination and study skills should all be read before you commence your studies. They are designed to familiarise you with the nature and content of the examination and give you tips on how best to approach your learning.

The **Study text** comprises the main learning materials and gives guidance as to the importance of topics and where other related resources can be found. Each chapter includes

- The **learning objectives** contained in each chapter, which have been carefully mapped to the examining body's own syllabus learning objectives or outcomes. You should use these to check you have a clear understanding of all the topics on which you might be assessed in the examination.
- The **chapter diagram** provides a visual reference for the content in the chapter, giving an overview of the topics and how they link together.
- The **content** for each topic area commences with a brief explanation or definition to put the topic into context before covering the topic in detail. You should follow your studying of the content with a review of the illustration/s. These are worked examples which will help you to understand better how to apply the content for the topic.
- **Test your understanding** sections provide an opportunity to assess your understanding of the key topics by applying what you have learned to short questions. Answers can be found at the back of each chapter.
- **Summary diagrams** complete each chapter to show the important links between topics and the overall content of the syllabus. These diagrams should be used to check that you have covered and understood the core topics before moving on.
- **Question practice** is provided at the back of each text.



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Our Quality Coordinator will work with our technical team to verify the error and take action to ensure it is corrected in future editions.

### Icon Explanations



**Supplementary reading** – These sections will help to provide a deeper understanding of core areas. The supplementary reading is **NOT** optional reading. It is vital to provide you with the breadth of knowledge you will need to address the wide range of topics within your syllabus that could feature in an exam question. **Reference to this text is vital when self-studying.**



**Definition** – Key definitions that you will need to learn from the core content.



**Key point** – Identifies topics that are key to success and are often examined.



**Test your understanding** – Exercises for you to complete to ensure that you have understood the topics just learned.



**Illustration** – Worked examples help you understand the core content better.



**Tricky topic** – When reviewing these areas care should be taken and all illustrations and Test your understanding exercises should be completed to ensure that the topic is understood.



**Tutorial note** – Included to explain some of the technical points in more detail.



**Footsteps** – Helpful tutor tips.



**Links to other syllabus areas** – This symbol refers to areas of interaction with other parts of your syllabus, either in terms of other ACCA papers that you have studied, or may go on to study, or even further professional qualifications that you may decide to pursue on completion of ACCA.

## Online subscribers

Our online resources are designed to increase the flexibility of your learning materials and provide you with immediate feedback on how your studies are progressing.

If you are subscribed to our online resources you will find:

- (1) Online reference material: reproduces your Study Text online, giving you anytime, anywhere access.
- (2) Online testing: provides you with additional online objective testing so you can practice what you have learned further.
- (3) Online performance management: immediate access to your online testing results. Review your performance by key topics and chart your achievement through the course relative to your peer group.

## Syllabus for September 2023 to June 2024

### Syllabus background

The aim of ACCA Audit and Assurance is to develop knowledge and understanding of the process of carrying out the assurance engagement and its application in the context of the professional regulatory framework.

### Objectives of the syllabus

- Explain the concept of audit and assurance and the functions of audit, corporate governance, including ethics and professional conduct.
- Demonstrate how the auditor obtains and accepts audit engagements, obtains an understanding of the entity and its environment, assesses the risk of material misstatement (whether arising from fraud or other irregularities) and plans an audit of financial statements.
- Describe and evaluate internal controls, techniques and audit tests, including IT systems to identify and communicate control risks and their potential consequences, making appropriate recommendations. Describe the scope, role and function of internal audit.
- Identify and describe the work and evidence obtained by the auditor and others required to meet the objectives of audit engagements and the application of the International Standards on Auditing (ISAs).
- Explain 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.
- Demonstrate employability and technology skills.

## **Core areas of the syllabus**

- Audit framework and regulation.
- Planning and risk assessment.
- Internal control.
- Audit evidence.
- Review and reporting.
- Employability and technology skills.

## **ACCA Performance Objectives**

In order to become a member of the ACCA, as a trainee accountant you will need to demonstrate that you have achieved nine performance objectives. Performance objectives are indicators of effective performance and set the minimum standard of work that trainees are expected to achieve and demonstrate in the workplace. They are divided into key areas of knowledge which are closely linked to the exam syllabus.

There are five Essential performance objectives and a choice of fifteen Technical performance objectives which are divided into five areas.

The performance objectives which link to this exam are:

- (1) Ethics and professionalism (Essential)
- (2) Governance risk and control (Essential)
- (3) Prepare for and plan the audit and assurance process (Technical)
- (4) Collect and evaluate evidence for an audit or assurance engagement (Technical)
- (5) Review and report on the findings of an audit or assurance engagement (Technical)

The following link provides an in depth insight into all of the performance objectives:

[https://www.accaglobal.com/content/dam/ACCA\\_Global/Students/per/PER-Performance-objectives-achieve.pdf](https://www.accaglobal.com/content/dam/ACCA_Global/Students/per/PER-Performance-objectives-achieve.pdf)

## Progression

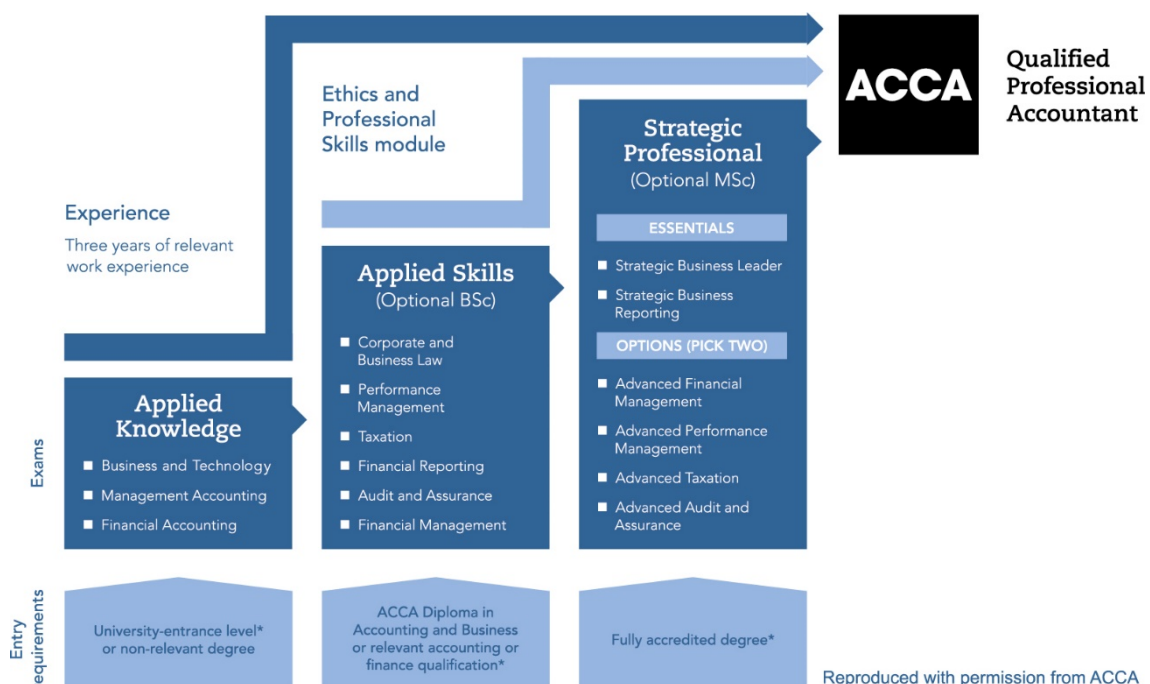
There are two elements of progression that we can measure: first how quickly students move through individual topics within a subject; and second how quickly they move from one course to the next. We know that there is an optimum for both, but it can vary from subject to subject and from student to student. However, using data and our experience of student performance over many years, we can make some generalisations.

A fixed period of study set out at the start of a course with key milestones is important. This can be within a subject, for example 'I will finish this topic by 30 June', or for overall achievement, such as 'I want to be qualified by the end of next year'.

Your qualification is cumulative, as earlier papers provide a foundation for your subsequent studies, so do not allow there to be too big a gap between one subject and another. We know that exams encourage techniques that lead to some degree of short-term retention, the result being that you will simply forget much of what you have already learned unless it is refreshed (look up Ebbinghaus Forgetting Curve for more details on this). This makes it more difficult as you move from one subject to another: not only will you have to learn the new subject, you will also have to relearn all the underpinning knowledge as well. This is very inefficient and slows down your overall progression which makes it more likely you may not succeed at all.

In addition, delaying your studies slows your path to qualification which can have negative impacts on your career, postponing the opportunity to apply for higher level positions and therefore higher pay.

You can use the following diagram showing the whole structure of your qualification to help you keep track of your progress.



## Syllabus objectives and chapter references

We have reproduced the ACCA's syllabus below, showing where the objectives are explored within this book. Within the chapters, we have broken down the extensive information found in the syllabus into easily digestible and relevant sections, called Content Objectives. These correspond to the objectives at the beginning of each chapter.

Syllabus learning objective	Chapter reference
<b>A AUDIT FRAMEWORK AND REGULATION</b>	
<b>1 The concept of audit and other assurance engagements</b>	
(a) Identify and describe the objective and general principles of external audit engagements. <sup>[2]</sup>	1
(b) Explain the nature and development of audit and other assurance engagements. <sup>[1]</sup>	1
(c) Discuss the concepts of accountability, stewardship and agency. <sup>[2]</sup>	1
(d) Define and provide the objectives of an assurance engagement. <sup>[1]</sup>	1
(e) Explain the five elements of an assurance engagement. <sup>[2]</sup>	1
(f) Describe the types of assurance engagement. <sup>[2]</sup>	1
(g) Explain the level of assurance provided by an external audit and other review engagements and the concept of true and fair presentation. <sup>[1]</sup>	1
<b>2 External audits</b>	
(a) Describe the regulatory environment within which external audits take place. <sup>[1]</sup>	2
(b) Discuss the reasons and mechanisms for the regulation of auditors. <sup>[1]</sup>	2
(c) Explain the statutory regulations governing the appointment, rights, removal and resignation of auditors. <sup>[1]</sup>	2
(d) Explain the regulations governing the rights and duties of auditors. <sup>[1]</sup>	2
(e) Describe the limitations of external audits. <sup>[1]</sup>	1
(f) Explain the development and status of International Standards on Auditing (ISAs). <sup>[1]</sup>	2
(g) Explain the relationship between International Standards on Auditing and national standards. <sup>[1]</sup>	2

Syllabus learning objective	Chapter reference
<b>3 Corporate governance</b>	
(a) Discuss the objectives, relevance and importance of corporate governance. <sup>[2]</sup>	3
(b) Discuss the provisions of international codes of corporate governance (such as OECD) that are most relevant to auditors. <sup>[2]</sup>	3
(c) Describe good corporate governance requirements relating to directors' responsibilities (e.g. for risk management and internal control) and the reporting responsibilities of auditors. <sup>[2]</sup>	3
(d) Evaluate corporate governance deficiencies and provide recommendations to allow compliance with international codes of corporate governance. <sup>[2]</sup>	3
(e) Analyse the structure and roles of audit committees and discuss their benefits and limitations. <sup>[2]</sup>	3
(f) Explain the importance of internal control and risk management. <sup>[1]</sup>	3
<b>4 Professional ethics and ACCA's Code of Ethics and Conduct</b>	
(a) Define and apply the fundamental principles of professional ethics of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. <sup>[2]</sup>	4
(b) Define and apply the conceptual framework, including the threats to the fundamental principles of self-interest, self-review, advocacy, familiarity, and intimidation. <sup>[2]</sup>	4
(c) Discuss the safeguards to offset the threats to the fundamental principles. <sup>[2]</sup>	4
(d) Describe the auditor's responsibility with regard to auditor independence, conflicts of interest and confidentiality. <sup>[1]</sup>	4
(e) Discuss the steps an auditor should take in relation to any breaches of ACCA's Code of Ethics and Conduct. <sup>[2]</sup>	4

Syllabus learning objective	Chapter reference
<b>B PLANNING AND RISK ASSESSMENT</b>	
<b>1 Obtaining, accepting and continuing audit engagements</b>	
(a) Discuss the requirements of professional ethics and ISAs in relation to the acceptance/continuance of audit engagements. <sup>[2]</sup>	4
(b) Explain the preconditions for an audit. <sup>[2]</sup>	4
(c) Explain the process by which an auditor obtains an audit engagement. <sup>[2]</sup>	4
(d) Discuss the importance and purpose of engagement letters and their contents. <sup>[1]</sup>	4
(e) Explain the overall objectives and importance of quality management procedures in conducting an audit. <sup>[2]</sup>	6
(f) Explain the quality management procedures which should be in place over engagement resources, engagement performance, monitoring and remediation and compliance with ethical requirements. <sup>[2]</sup>	6
(g) Evaluate quality management deficiencies and provide recommendations to allow compliance with quality management requirements. <sup>[2]</sup>	6
<b>2 Objective and general principles</b>	
(a) Identify the overall objectives of the auditor and the need to conduct an audit in accordance with ISAs. <sup>[2]</sup>	1 & 6
(b) Explain the need to plan and perform audit engagements with an attitude of professional scepticism, and to exercise professional judgement. <sup>[2]</sup>	5
<b>3 Assessing audit risks</b>	
(a) Explain the components of audit risk. <sup>[1]</sup>	5
(b) Describe the audit risks in the financial statements and explain the auditor's response to each risk. <sup>[2]</sup>	5
(c) Define and explain the concepts of materiality and performance materiality. <sup>[2]</sup>	5
(d) Explain and calculate materiality levels from financial information. <sup>[2]</sup>	5

Syllabus learning objective	Chapter reference
<b>4 Understanding the entity, its environment and the applicable financial reporting framework</b>	
(a) Explain how auditors obtain an initial understanding of the entity, its environment and the applicable financial reporting framework. <sup>[2]</sup>	5
(b) Describe and explain the nature and purpose of analytical procedures in planning. <sup>[2]</sup>	5
(c) Compute and interpret key ratios used in analytical procedures. <sup>[2]</sup>	5
<b>5 Fraud, laws and regulations</b>	
(a) Discuss the effect of fraud and misstatements on the audit strategy and extent of audit work. <sup>[2]</sup>	6
(b) Discuss the responsibilities of internal and external auditors for the prevention and detection of fraud and error. <sup>[2]</sup>	6
(c) Explain the auditor's responsibility to consider laws and regulations. <sup>[2]</sup>	6
<b>6 Audit planning and documentation</b>	
(a) Identify and explain the need for, benefits of and importance of planning an audit. <sup>[2]</sup>	6
(b) Identify and describe the contents of the overall audit strategy and audit plan. <sup>[2]</sup>	6
(c) Explain and describe the relationship between the overall audit strategy and the audit plan. <sup>[2]</sup>	6
(d) Explain the difference between interim and final audit. <sup>[1]</sup>	6
(e) Describe the purpose of an interim audit, and the procedures likely to be adopted at this stage in the audit. <sup>[2]</sup>	6
(f) Describe the impact of the work performed during the interim audit on the final audit. <sup>[2]</sup>	6
(g) Explain the need for, and the importance of, audit documentation. <sup>[1]</sup>	6
(h) Describe the form and contents of working papers and supporting documentation. <sup>[2]</sup>	6
(i) Explain the procedures to ensure safe custody and retention of working papers. <sup>[1]</sup>	6