



ADVANCED AUDIT & ASSURANCE (AAA-INT)

**Read the mind
of an AAA marker
SPECIMEN EXAM Q3**

Think Ahead

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Introduction

I am a member of the team who marks Advanced Audit & Assurance. This article is designed to give you, the candidate, an insight into my mind, so that you can better understand what a marker will be looking for when it comes to marking your Advanced Audit & Assurance script.

Insight into a marker's thinking – appreciating what we are trained to look for, what we award marks for, the reasons why marks may not be awarded – will help you fulfil your potential and gain the necessary marks to pass. It will help you appreciate the points that will attract marks so that you can better assess your answers when practicing questions.

This article uses two candidates' answers to Question 3 from the AAA-INT specimen exam. To support your reading of this article, you should refer to the specimen exam on the **ACCA Practice Platform**.

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

Question 3

Observations on the requirement

AAA-INT Specimen – from September 2022 onwards

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Close All Flag for Review

Exhibits

- 1. Completion matters
- 2. Chairman's statement

Requirements

- Requirements (25 marks)

Response Options

- Word Processor

Requirements (25 marks)

(a) Using the information contained in Exhibit 1:

(i) Comment on the completion matters to be considered in relation to the issue described and recommend the further actions necessary before the auditor's report can be signed; and

(ii) Evaluate the implications for the auditor's report if no adjustments are made to the financial statements. (10 marks)

(b) Using the information contained in Exhibit 2:

(i) Describe the auditor's responsibilities in relation to the other information presented with audited financial statements and evaluate the matters arising from the extract from the chairman's statement; and (5 marks)

(ii) Assuming no changes are made to the chairman's statement, evaluate the implications for the completion of the audit and the auditor's report. (5 marks)

Professional marks will be awarded for the demonstration of skill in analysis and evaluation, and professional scepticism and judgement in your answer. (5 marks)

Help Previous Navigator Next

Completion and reporting are important elements of the AAA syllabus and will build upon the knowledge gained at AA. At the higher level, you will be expected to consider the evidence and expand upon your answers in relation to the scenario. Where you are asked to consider the impact on the auditor's report, a reasoned justification will be required.

Once again, stronger candidates are those who demonstrate strong technical knowledge of auditing standards which are applied to the scenario. Professional skills marks will be gained where application of knowledge is demonstrated.

Specimen exam marked answers

Marks awarded and comments:

Question 3 candidate one

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

Word Processor

Paragraph

Sale of division

The scientific publishing division is material for the statement of profit and loss, being at 12% from the total revenues and 15% from PBT.

IFRS 5 Non current assets held for sale and discontinuing operations states that the assets are presented as held for sale in a separate line from the financial statements if certain conditions are met such as:

- the assets can be sold in its present condition.
- the assets are currently marketed to be sold in a maximum 1 year after the classification was done.
- the fair value can be fairly estimated.

It seems that all conditions are met, the division is expected to be sold in 6 months after the year end, the division is marketed to be sold at \$42 million.

There is the audit risk that the publishing division was not correctly disclosed in the draft financial statements as held for sale, and the revenue from the division was not classified in a separate line in the face from the statement of comprehensive income.

There is the risk that the depreciation of the assets related to the division held to be sold was still recorded in the financial statements (the depreciation should have been stopped from the moment when the assets meet the conditions to be sold), thus the assets are understated, and the expenses and profit overstated as at year end.

The valuation seems to be incorrect: the value should be the higher that the value in use and the fair value less cost of sell. Currently the value in use is of \$41 million and the fair value less cost of sell is of \$42 million, a difference of \$1 million, the difference amount is material to the statement of profit and loss, being of 10 % from PBT.

Audit procedures to be performed:

- scrutinise the board minutes to see when the division was agreed to be sold (was before or after the year end?). If it is before, then the division should be classified as held for sale in the financial statements for the current year.
- inspect correspondence with the potential buyer to assess if the division is marketed and is expected to be sold in 6 months.
- review the management calculation for the value in use of the division and challenge for the assumptions made, mainly the discount rate of the value in use used in the calculation.
- check if the depreciation expense was computed for the entire year and assess the period from which the depreciation stopped; propose adjustment if necessary.
- review the draft financial statements to see if the disclosure was properly made at year end.

Implication of the auditor's report

The financial statements have the risk of material misstatement regarding this issue.

If the division should be classified as held for sale before the year end, the audit team needs to discuss the matters with the management or those charged with governance to update the correct presentation and the correct fair value of the division as clearly is misstated.

If the management refuses to modify the financial statements, the misstatement is material but not pervasive.

Thus, the auditor will issue a qualified opinion with a except for qualification. A basis for qualified opinion will follow the Qualified opinion which will present the matters and will quantify the financial effect of the misstatements.

Also, the matters will be discussed with management.

If the matters will be updated by the client, an unmodified opinion will be issued.

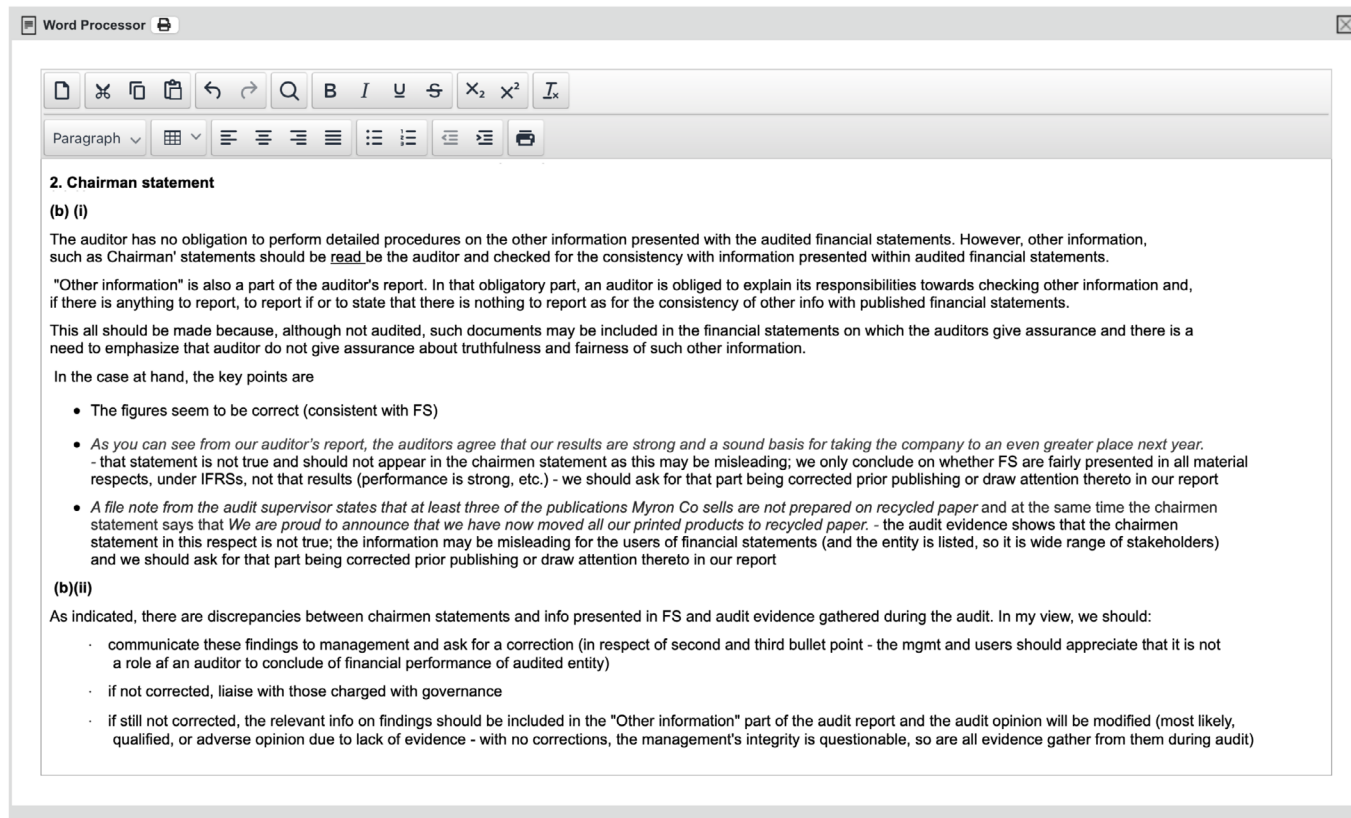
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Specimen exam marked answers

Marks awarded and comments:

Question 3 candidate one

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



2. Chairman statement

(b)(i)

The auditor has no obligation to perform detailed procedures on the other information presented with the audited financial statements. However, other information, such as Chairman' statements should be read be the auditor and checked for the consistency with information presented within audited financial statements.

"Other information" is also a part of the auditor's report. In that obligatory part, an auditor is obliged to explain its responsibilities towards checking other information and, if there is anything to report, to report if or to state that there is nothing to report as for the consistency of other info with published financial statements.

This all should be made because, although not audited, such documents may be included in the financial statements on which the auditors give assurance and there is a need to emphasize that auditor do not give assurance about truthfulness and fairness of such other information.

In the case at hand, the key points are

- The figures seem to be correct (consistent with FS)
- *As you can see from our auditor's report, the auditors agree that our results are strong and a sound basis for taking the company to an even greater place next year.* - that statement is not true and should not appear in the chairmen statement as this may be misleading; we only conclude on whether FS are fairly presented in all material respects, under IFRSs, not that results (performance is strong, etc.) - we should ask for that part being corrected prior publishing or draw attention thereto in our report
- *A file note from the audit supervisor states that at least three of the publications Myron Co sells are not prepared on recycled paper* and at the same time the chairmen statement says that *We are proud to announce that we have now moved all our printed products to recycled paper.* - the audit evidence shows that the chairmen statement in this respect is not true; the information may be misleading for the users of financial statements (and the entity is listed, so it is wide range of stakeholders) and we should ask for that part being corrected prior publishing or draw attention thereto in our report

(b)(ii)

As indicated, there are discrepancies between chairmen statements and info presented in FS and audit evidence gathered during the audit. In my view, we should:

- communicate these findings to management and ask for a correction (in respect of second and third bullet point - the mgmt and users should appreciate that it is not a role of an auditor to conclude of financial performance of audited entity)
- if not corrected, liaise with those charged with governance
- if still not corrected, the relevant info on findings should be included in the "Other information" part of the audit report and the audit opinion will be modified (most likely, qualified, or adverse opinion due to lack of evidence - with no corrections, the management's integrity is questionable, so are all evidence gather from them during audit)

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Notes on **candidate one's** answer to Q3

Summary of marks:

TECHNICAL:	
a)	10
bi)	5
bii)	2
TOTAL technical marks	17
PROFESSIONAL:	
Analysis and Evaluation	3 (max)
Professional scepticism and judgement	3
Commercial Acumen	-
TOTAL professional marks	5 (max)
OVERALL TOTAL	22/25

How could this answer have been improved?

Overall, this was a good attempt by the candidate as they provided answers which were relevant to the context of the scenario. Issues were supported by evidence from the scenario, and the candidate demonstrated strong auditing and financial reporting knowledge to support their evaluations. The candidate repeatedly challenged the information and the work undertaken and supplied suitable suggestions for improvement.

Further actions requested in part (a) would need more explanation as to the reasoning for the action, and what the auditor was looking for, as the procedures suggested scored few technical marks and all candidates must remember to consider what actions would be appropriate at the completion stage of the audit in future questions. This latter point would

score the professional marks, ie recognising what is required and what is appropriate at this stage of the audit process. The candidate correctly provided justified conclusions as this was an 'evaluation' requirement and especially important in a reporting question. Professional marks as well as technical marks are available for justified conclusions.

Specimen exam marked answers

Marks awarded and comments:

Question 3 candidate two

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

(i) Comment on the completion matters to be considered in relation to the issues described and recommend the further actions necessary before the auditor's report can be signed.

Sale of division

The sale of the division of Myron Co seems to represent a division which is being discontinued. From the details given, the agreed sales price after cost is \$42m, and is material to the statement of financial position.

According to the accounting standard for assets held for sale and discontinued operations, it would seem that Myron Co has met the conditions for the sale of the division. The division looks to be ready for use in its present condition. Also, management looks committed to the sale as they aim to finalise the sale by 1 August 20x5. It would also seem that a fair price has been placed on the value of the asset.

However, the finance director has included a figure of \$41m in the financial statement as the value in use. Myron co does not apply a revaluation policy and therefore, showing a value in use of \$41m would seem to show a wrong value for the division.

To determine the fair value for the division, the finance director would need to consider the Carrying value against the higher of the Fair value and the value in use. The fair value can be determined comparing a similar asset if there is one traded while the value in use is determined by discounting the future value of the cash flows from continuous use of the asset.

The finance directors have also not made any disclosures in the accounts to show that the division is being sold.

(ii) Evaluate the implications for the auditor's report if no adjustments are made to the financial statements.

If the above are not adjusted the audit report would be qualified except for the matters in relation to the sale of the division.

(b)

(i) Describe the auditor's responsibilities in relation to the other information presented with the audited financial statements and comment on the matters arising from the extract from the chairman's statement;

It is the auditor's responsibility to check that the matters described by the chairman in the statement is in line with the financial statements. This is to ensure that there are no misstatements, or the chairman is not painting a different picture from what the financial statement is saying.

Also, the chairman in his statement has said that the auditors agree with their results. This puts the auditors in a position of advocacy and liability. If this is not excluded from the statement, the auditor could be liable if users of the financial statement decide to sue the auditors.

Furthermore, the file note from the audit supervisors would seem to contradict the chairman's statement that they are reducing their carbon footprint. This is shown as form at least three of the publications produced by Myron co is not recycled paper.

(ii) Assuming no changes are made to the chairman's statement, evaluate the implications for the completion of the audit and the auditor's report.

If there are no changes made to the statement, a modified report could be issued in the form of an 'other matters' paragraph due to the carbon footprint that is not being reduced.

Also, a disclaimer would be giving in the audit report to state that the auditors are not in agreement with the results. The auditor can only state that the financial statements have been prepared in a way that represents a true and fair view of the company's position.

Notes on **candidate two's** answer to Q3

Summary of marks:

TECHNICAL:	
a)	4
bi)	3
bii)	0
TOTAL technical marks	7
PROFESSIONAL:	
Analysis and Evaluation	1
Professional scepticism and judgement	1
Commercial Acumen	-
TOTAL professional marks	2
OVERALL TOTAL	9/25

How could this answer have been improved?

The points made by the candidate are not fully explained with sufficient justification and suitable suggestions. The exception has been highlighted and awarded a professional mark as they have developed the point using knowledge, information in the scenario and drawing some conclusion.

Generally, there was a lack of challenge throughout the response. Where challenges have been implied or highlighted, they are not fully developed. In part b(ii), there is some challenge by the candidate of the apparent contradiction of the chairman's statement, in order to make this a definite professional mark in the exam, they should ensure they explain it further: Ideally the candidate should have explained it further (why do they believe there is a contradiction? What is the evidence for this? What are the possible implications?)

The lack of full and applied responses to the technical elements of the requirement have resulted in a lower professional skill score. Professional skills are awarded for demonstrating the application skills of the candidate, and the response here lacked the appropriate depth.

Further actions requested in part (a) would need more explanation as to the reasoning for the action, and what the auditor was looking for, as the procedures suggested scored few technical marks and all candidates must remember to consider what actions would be appropriate at the completion stage of the audit in future questions. This latter point would score the professional marks, ie recognising what is required and what is appropriate at this stage of the audit process. Many of the suggestions by the candidate are procedures which would have been undertaken at an earlier stage or fail to provide the additional evidence which is required.

As this was an 'evaluation' requirement, inclusion of a justified conclusion would have gained additional technical and professional marks.

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