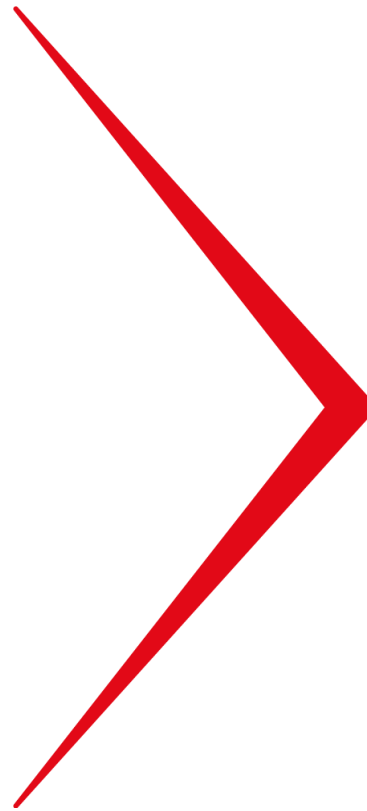




ACA Tutor Conference 2018

AUDIT AND ASSURANCE



Agenda

1. Candidate performance in 2017
2. December 2017 script review
3. 2018 Syllabus and learning materials update
4. 2018 CBE changes
5. Questions?

Candidate performance in 2017

1



Pass rates

Average mark by question type

Average score by syllabus area

Non-attempts

Qualitative evaluation of performance

Pass rates

	2017 %	2016 %	2015 %	2014 %	2013 %
March	87.1	80.9	87.1	87.4	76.7
June	81.6	82.7	82.0	84.8	84.9
September	86.1	90.5	87.5	84.4	85.8
December	70.2	81.6	74.9	86.2	82.0

- Disappointing December 2017 performance, largely due to weak performance in:
 - Prospective financial information engagement (cash flows) – in which candidates have tended to perform poorly
 - Audit reports

Average mark by question type

Question type	December 2017 %	September 2017 %	June 2017 %	March 2017 %
SFQ	60.1	71.3	57.1	60.4
LFQ	60.0	65.5	66.4	66.6
Total	59.8	66.9	64.8	65.7

- Lower LFQ performance in December relative to other sittings
- Due to poor performance in Q8 (PFI) and Q9 (Audit reports)

Average score by syllabus area

		December	September	June	March
Legal, Professional & Ethical	2017	62.7%	71.4%	63.3%	67.3%
	2016	68.8%	70.8%	72.1%	54.2%
Accepting & Managing Engagements	2017	54.6%	51.5%	47.3%	67.5%
	2016	54.0%	56.0%	54.6%	63.9%
Planning Engagements	2017	60.2%	66.1%	67.1%	58.9%
	2016	67.1%	65.1%	65.9%	66.2%
Concluding and Reporting	2017	62.2%	74.8%	72.4%	75.6%
	2016	71.3%	72.4%	64.4%	65.0%

- March: online human capital, revenue, intangibles, compensation – failed to break down into parts
- Dec: weak on audit report knowledge
- Accepting and managing engagements: see qualitative feedback on later slides

Non-attempts

Session	Question	Marks available	% non-attempts	Syllabus area
September	7.2	3	4%	3: Describe data analytics routines
	7.4	5	4%	3: Audit risks arising from storage of personal data
June	8.3	3	7%	4: Additional info for inclusion in extended auditor's report for listed companies

- Incidents of non-attempts seems to be lower than in previous years
- Note: Risks associated with storing client data answered well in December (SFQ1)

Qualitative evaluation of performance

General comments	
Good news	Bad news
Application based SFQs – generally tackled well	Knowledge based SFQs – evidence of a lack of familiarity with the open book
Generally good time management – most candidates attempt all questions	Not following instructions to present SFQs in note form
	Presenting answers to LFQs as dense written text. Can result in hidden text.
	Tendency to answer similar questions previously seen rather than the one in the paper (eg purpose of APs at planning stage rather than as substantive procedures (J17)) and straying beyond requirement (eg threats & safeguards when only asked for threats)
Identification of issues relating to management, eg bias, window dressing, opinion shopping, intimidation etc	Window shopping!!!
	Failing to appreciate the context of timing within the scenario – eg discussing acceptance issues when at the planning stage (Q8 M17)

Qualitative evaluation of performance

Legal, ethical and current issues (20%)	
Good news	Bad news
Identification of threats, plausible explanations and relevant safeguards	Although still a high proportion of 'scattergunners' when identifying the threats, particularly for non-standard issues (eg provision of forensic specialist – J17)
Lowballing	Over use / inappropriate use of information barriers
	Permitted extension to audit partner involvement to protect the quality of the audit (mixed – M17, D17)
	Extended ECQR where client is listed
	Long association - Confusion between safeguards relevant to partners and other senior staff

Qualitative evaluation of performance

Accepting and managing engagements (15%)	
Good news	Bad news
Performance indicators (J17 – IA)	Appreciation of differences between the different types of review conducted during an audit engagement
Responsibilities for fraud and error	Explaining difference in scope between audit and non-audit engagements and reasons (S17)
Obtaining professional clearance	Tender scenarios: <ul style="list-style-type: none"> - Factors affecting fee in tender (S17 – not specific) - Matters considered before tendering (J17)
Firms liability / limitation of liability, but..... Putting Bannerman/liability limitation in engagement letter rather than audit report (M17, D17)quality control procedures to reduce risk of inappropriate opinion (D17)
	Quality control if some audit work transferred overseas (J17)

Qualitative evaluation of performance

Planning assurance engagements (40%)	
Good news	Bad news
Intangible assets (M17) PPE (S17) Trade payables and inventory (J17) Going concern (S17)	Revenue (M17 & S17) – better candidates break down into component parts Compensation claims (M17) Rental expenses (S17) Need to go back to basics to deal with unusual scenarios
Risks associated with cyber-security / data storage	Distrust of perpetual inventory systems
Performing specific analytical procedures based on data presented (J17)	Increase in incorrect calculations of % changes / days etc based on financial statement extracts
Dealing with uncorrected misstatements	Data analytics routines: either when specified in the wider requirement (D17) or as separate requirement, although some maxed and others did not answer (S17)
	Performance indicators (S17 – work place accidents)
	Dealing with group audits (M17)

Qualitative evaluation of performance

Concluding and reporting (25%)	
Good news	Bad news
<p>With the exception of December, audit report conclusions, ie:</p> <ul style="list-style-type: none"> - material misstatement or limitation on scope - Material or pervasive 	<p>Inappropriate use of emphasis of matter paragraph (particularly where an uncertainty relating to going concern is relevant) or using it instead of a basis for modified opinion paragraph (esp. if qualified/”except for”)</p>
	<p>Failing to appreciate that an uncertainty relating to going concern does not mean the FS are prepared on a break up basis</p>
<p>Theoretical appreciation of differences between external audit reports and other reports prepared by practitioners</p>	<p>Dealing with non-audit reports (eg review engagement J17) or items in the annual report that are not part of the financial statements (strategic report J17)</p>
<p>Consequences of firm reaching an inappropriate opinion</p>	<p>Failing to distinguish between how firms can mitigate the financial impact of reaching an inappropriate opinion with how the firm can reduce its liability.</p>
<p>Explanation of internal control deficiencies and suitable recommendations</p>	<p>Dealing with uncorrected misstatements</p>

December 2017 script review



*Example of marking from
December 2018 session*

2018 Syllabus and Learning Materials update



Assurance syllabus update

Assurance learning materials update

A&A syllabus update

A&A learning materials update

Assurance syllabus update

3 Gathering evidence on an assurance engagement

Changes to existing LOs

LO b: identify the different methods of obtaining evidence from the use of tests of control, substantive procedures, including analytical procedures and data analytics;

- Ch 11 Question bank – Q32 is an example of how it will be examined

LO g: recognise when the quantity (including factors affecting sample design) and quality of evidence gathered is of a sufficient and appropriate level, after taking account of sampling risk, to draw conclusions on which to base a report;

- clarification of LO – no change to how it is examined

Assurance learning materials update

Chapter 4 Section 2.2 Content of the auditor's report

Expansion of paragraph on ISA 701 to include a summary of the points included in para 9 of ISA 701 (i.e. areas of higher risk, significant judgements & significant transactions/events)

Chapter 11 Section 1.3.3 Data Analytics

Additional material re data analytics (i.e. background info and additional examples of data analytics routines)

A&A syllabus update

- adding data analytics to more LOs (previously only LOs 3i & part of 3j)

1 Legal and other professional regulations, ethics and current issues

LO f: explain, in non-technical language, significant current assurance issues being dealt with by the national standard-setting body and the IAASB

including developments in the use of data analytics;

3 Planning engagements

LO j: the nature and extent of client-generated information, including reliability of clients' reports and underlying system-generated data including the use of

client-generated information in data analytics routines;

4 Concluding and reporting on engagements

LO c: evaluate quantitatively and qualitatively, the results and conclusions obtained from assurance procedures including analytical procedures and data

analytics where appropriate;

A&A syllabus update

- Inclusion of ISA 800 and ISA 805 in Technical Knowledge grid
- ISA 800 (Revised October 2016) Special considerations – Audits of Financial Statements prepared in Accordance with Special Purpose Frameworks
 - Level A
- ISA 805 (Revised October 2016) Special considerations – Audits of Single Financial Statements and Specific Elements, Accounts or items of a Financial Statement
 - Level B

A&A learning materials update

Chapter 4: Section 3.1.5 Non-audit services

Expanded section on internal audit services

Chapter 6: Section 3.2.6 statement by auditor ceasing to hold office

Updated for change in CA 2006

Chapter 10: Section 3.1 Data Analytics

Background info and additional examples of data analytics routines

Chapter 13: Section 4 Special considerations

Background info on ISA's 800 and 805

A&A learning materials update

Chapter 13 Reporting

Other assurance engagements moved to new Chapter 14 (as requested by tutors at 2017 Conference)

Chapter 14 Other assurance engagements (new)

Sections re other assurance engagements moved from Chapters 6, 12 & 13

Establish that other assurance engagements are different from audits

A&A learning materials update

Question bank

Restructuring of questions and answers for justification of risks and procedures question to reflect changes in requirement format (see section on 2018 CBE changes) – ie no longer in columns

Restructuring of answers to consequences and recommendations questions re internal control deficiencies – ie no longer in columns

2018 CBE changes



SFQs

*Removal of proforma answer areas
'Justification of risks and procedures'
question*

SFQs

- SFQs will be combined into a single question, question 1, with six parts
- From March 2018
- **Note form** answers should still be provided
- LFQs will be renumbered accordingly (ie, question 2 to 4)

Removal of proforma answer areas

- Proforma answer areas will no longer be set up for the A&A exam
- From March 2018
- Brings A&A into line with other papers
- **Recommendation** – candidates should make use of the word processing tool in the CBE software to avoid the risk of text being “hidden” in cells
- **Recommendation** – start each point in a new cell / line rather than including multiple points in a single cell – see examples:

Example layouts

4	7.2)
5	Justification
6	New audit client. Therefore lack of familiarity with the entity
7	- Risk that opening balances are not appropriate as not being brought forward correctly
8	TRADE RECEIVABLES
9	Trade Receivable days have been around 31 days in previous year and have increased substantially to 45 days.
10	This might indicate an overstatement of trade receivables as there is an overall increase of 68% on the figure



4	7.2)
5	Justification
6	Trade receivables -The terms of trade are 30 days for Receivables collection period. 45 days is not in line with the terms of trade. Furthermore the collection period has increased from 31 to 45 days. Trade receivables may be overstated. -Online selling may lead to incorrect prices received -the amendment in the catalogue regarding sales prices indicates misappropriation of cash and possible fraud by employees -LEL has asked for payment in sterling from customers. they may apply incorrect rate and Trade receivable may be an incorrect figure then -this is a new client therefore there is a risk of incorrect opening balance of trade receivables -The customer holding 1.3 million and claiming the goods to be defective may not pay. adverse cashflow problems. 1.3 million is more than 1% threshold in terms of revenue therefore amount is material. Trade receivables may not reflect the allowance of 1.3 million thus overstating TR. -TR may also be overstated to strengthen the statement of financial position to obtain a bank loan -the use of () in line with the LEL complies -The receivables deferred income receivables
6	is may not be h LEL ay indicate ade



4	7.2)
5	Justification
6	1) Trade receivables - increased by 68% which is not in line with increased revenue of 16.1% and cost of sales of 7%. Trade receivable days has also increased from 31.1 days to 45.1 days. This suggests a potential overstatement of trade receivables. This could be due to the inclusion of £1.3million of payment from Ruritania Education Consortium in trade receivables although claimed that instruments are defective. It is not probable that Ruritania will make the payment for the instruments thus it is inappropriate to recognise it as trade receivables. It may be also due to potential new customers, inclusion of irrecoverable debts, inappropriate basis used for provision of bad debts.



‘Justification of risks and procedures’ question

- No longer required to answer question in columnar format
- From March 2018
- The sub-headings to be used will be stipulated in the requirement
- In March 2018, the requirement will look as follows:

Justify why the items listed by the engagement partner as (1) to (2) have been identified as key areas of audit risk and, for each item, describe the procedures that should be included in the audit plan to address those risks.

You should present your answer using the following subheadings:

- Trade receivables
- Inventory

‘Justification of risks and procedures’ question

From June 2018 the requirement format will be amended further:

Justify why trade receivables and inventory have been identified as key areas of audit risk and, for each key area, describe the procedures that should be included in the audit plan to address those risks.

Present your answer using the following subheadings:

- Trade receivables
- Inventory

‘Justification of risks and procedures’ question

- Candidates will not be penalised for the way they choose to present their answer
- However, marks will not be awarded where the justification/procedure is not listed under an appropriate subheading, unless it is a general point relevant to any subheading, eg first year audit / opening balances (then usually awarded once only)
- A recommended layout for answers is as follows and this has been reflected in the 2018 learning materials

‘Justification of risks and procedures’ question

Trade receivables
Justification
- risk of overstatement
- Days have increased from 31.1 + to 45.1 days
- Higher than 30 days payment terms
Procedures
- Obtain aged analysis and review for evidence of overdue balances
- Direct confirmation of balances
Inventory
Justification
- XXXXX
- XXXXX
Procedures
- XXXXX
- XXXXX

The examiners encourage candidates to continue to use their justifications to assist with the generation of audit procedures

Questions?

5

*Is there anything you would like
to ask the examiners?*

