



Audit & Assurance

3 FEBRUARY 2021



Anne Evans
A&A Moderator

Lisa Nelson
A&A Examiner

Agenda

9.00 – 10.00

Looking back:

1. 2020 Candidate Performance
2. Script Review

10.00 – 11.30

Looking forward:

3. Syllabus and Learning Materials Update

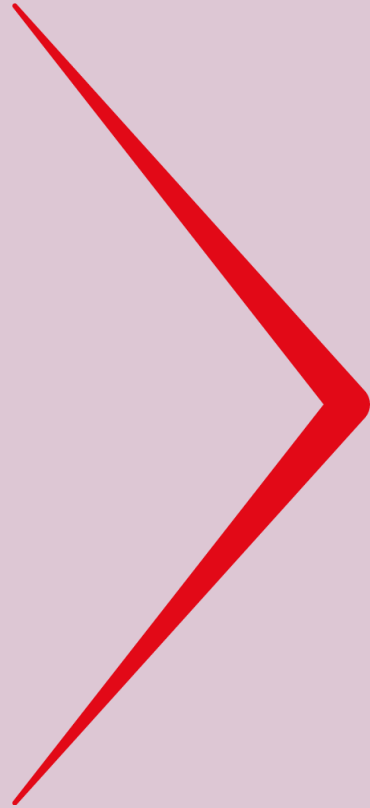
Break

4. Introduction of Data Analytics
5. New CBE Software

11.30 – 12.00

Q&A

1



2020 Candidate Performance

- Pass rate analysis
- Qualitative feedback

Pass rates

	2020 %	2019 %	2018 %	2017 %
March	84.6	78	78.8	87.1
June	N/A	79	83.9	81.6
September	81.5	79	87.2	86.1
December	74.9	75.7	78.2	70.2

December: **poorest performance** for the last four sessions

June & September: consistent strong performance

March: variable performance

Qualitative evaluation of performance – good news

- more use of note form in SFQs and shorter sentences/bullet points in LFQs
- identification of type of threats to objectivity
- information barriers
- factors affecting management integrity
- justification of risks and relevant audit procedures
 - citing risk of over or understatement
 - identifying when judgement is an issue
 - calculating simple ratios

Qualitative evaluation of performance – Good news (continued)

- dealing with basic audit report scenarios (material misstatement and insufficient, appropriate evidence/limitation on scope)...
- consequences of identified internal control deficiencies and relevant recommendations to address them

Qualitative evaluation of performance

Bad news: Failure to answer the question

Requirement	Student answer
D20 Q4.3 Attributes of effective communications with TCWG re deficiencies in I.C.s (per ISA 265)	Attributes of general communications with TCWG (per ISA 260)
S20 Q1.5 Audit procedures re: items within a supplier statement reconciliation (payments/invoices around year end, discounts not allowed)	Procedures unrelated to the reconciliation such as testing I.C.s and direct confirmation
S20 Q4.2 For each of the four situations , state, with reasons, the implications for your firm's audit or assurance report. In respect of Hampshire, you should consider the implications of the company listing on the London Stock Exchange	Ignored situations other than Hampshire

Qualitative evaluation of performance

Bad news (continued)

- explanation of threats to objectivity
 - e.g. self-review threat “review own work” instead of linking it to scenario e.g. “auditing FS prepared by firm”
- identifying other threats to fundamental principles in “ethical issues” questions
 - integrity, professional behaviour, professional competence and due care, confidentiality
- quality control issues
 - confusion between routine reviews, EQCR and monitoring (cold review)
 - when an external independent review is required

Qualitative evaluation of performance

Bad news (continued)

- universal application of information barriers when firm performs other engagements in addition to an external audit
- distinguishing between questions that require deficiencies in internal controls to be identified as well as consequences/recommendations and those that just require consequences/recommendations
- distinguishing between situations when an entity is not a going concern and uncertainty re going concern

Qualitative evaluation of performance

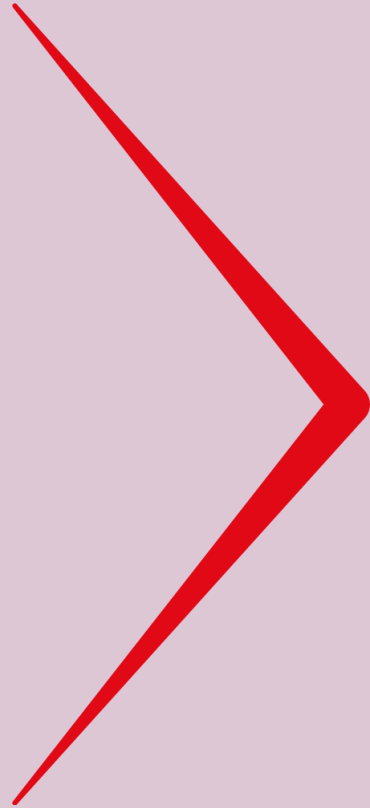
Bad news (continued)

- not performing more informative ratios e.g. revenue per employee, revenue per truck, payables/receivables days
- not showing materiality calculations/percentages
- written representations
 - lack of awareness of the mandatory representations per ISA 580
 - fail to specify what representation should cover
 - purpose e.g. often cite “limit auditor’s liability/reduce expectation gap” instead of supporting management judgements/intentions

Qualitative evaluation of performance - Bad news (continued)

- using emphasis of matter for situations other than drawing attention to matters disclosed in FS
- overlooking matters to report by exception when modifying opinion due to insufficient appropriate evidence/limitation on scope
- confusion between engagements – review of FS and examination of PFI. Often cite:
 - the caveat that is included in report on PFI in review of FS engagements
 - that work is restricted to AP and enquiry in PFI engagements
- current issues
 - lack of awareness of topics covered in Chapter 3 Section 5: Current issues

2



***Example of
marking from
December 2020
session***

Question

- Justify why the items listed as (1) to (3) 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. You should present your answer using the following subheadings:

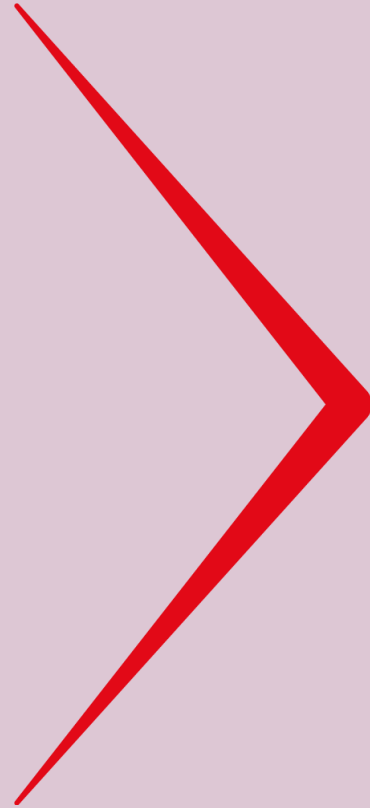
Revenue

Intangible assets:

- Goodwill
- Development costs

Trade receivables **(29 marks)**

3



***Syllabus &
Learning
Materials
Update***

A&A syllabus changes

1 Legal and other professional regulations, ethics, accepting and managing engagements and current issues

Learning outcome 1e (amended)

judge when to raise legal and ethical matters arising from assurance work with senior colleagues for review and possible referral to external parties, **including reporting suspicions of money laundering**

Learning outcome 1h (deleted)

~~demonstrate how the assurance function within an organisation can be monitored;~~

Learning outcome formerly 1l now LO1k (amended)

~~explain the standard-setting process used by national and international (IAASB) bodies and the authority of the national and international standards~~ **Describe the role of national and international standards**

A&A syllabus changes

1 Legal and other professional regulations, ethics, accepting and managing engagements and current issues

- **Learning outcome formerly 1m now 1l (amended)**

explain, in non-technical language, significant current ~~assurance~~ issues being dealt with by the **accountancy profession**, government bodies, the national standard-setting body and the IAASB ~~including developments in the use of data analytics;~~

- **Learning outcome 1p (deleted)**

~~describe how national and international bodies are working to harmonise auditing requirements, including requirements to report on internal controls~~

A&A Syllabus changes

2 Planning and performing engagements

- **Learning outcome 2f (amended)**

assess significant business risks (including risks associated with **going concern, climate change**, technological advances, cyber security and GDPR) identified for their potential impact upon an organisation, in particular their potential impact on performance measurement

- **Learning outcome 2j (extra bullet added)**

determine an approach appropriate for an engagement for a specified organisation which addresses:

- **the financial statement implications of climate change.**

- **Learning outcome 2k (new)**

use data analytics software to analyse and interpret data extracted from an organisation's accounting records to identify risks of misstatement

A&A Syllabus changes

2 Planning and performing engagements

- **Learning outcome formerly 2l now 2m (amended)**
 - outline the aspects of ~~employment and social security~~ law which are relevant to statutory audit

A&A Workbook –key changes

- **Chapter 3**

- Section 5.2: Professional skepticism
 - expanded existing section for FRC criticisms re lack of PS
- Section 5.4: Future of audit
 - Brydon report expanded
 - climate change
 - technological advances

A&A Workbook –key changes

- **Chapter 4**

- Various sections - updates re: Revised ES:
 - internal audit
 - contingent fees
 - recruitment/remuneration services

- **Chapter 7**

- Section 5 Going concern
 - expanded to reflect more onerous requirements for auditors as per ISA 570 Revised

A&A Workbook –key changes

- **Chapter 9:**

- Section 1 Business risk

added business risks associated with climate change

- **Chapter 13:**

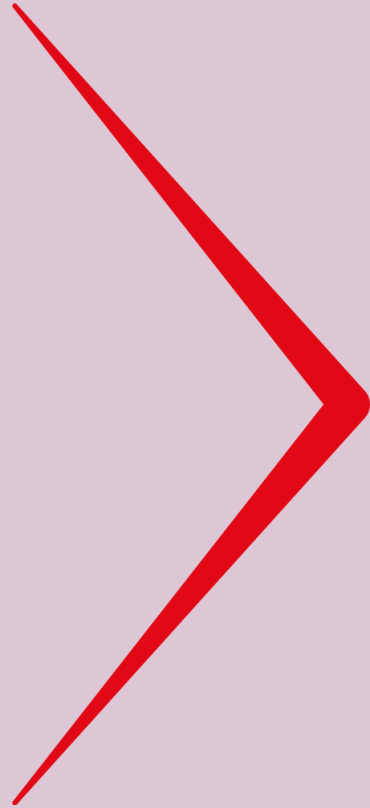
- Section 3.4 Going concern

new section summarising the implications for audit reports



Break

4



***Introduction of
Data Analytics***

Introduction of Data Analytics



Already covered on Monday 1 February:

- Importance of introducing data analytics into AA and CR
- High level impact on exams
- Resources available
- Demonstration of software

Data Analytics in the A&A exam

- Can appear in ***any Long Form Question*** (will not appear in SFQs)
- Will only be used in ***one question***
- ***c. 12 marks***
- Marks are available for using the scenario (ie. ***it's not all in the software!***)
- The requirement will ***specify which module(s)*** candidates are expected to use
- There will be no marks for using modules which are not specified
- The requirement ***may, but not necessarily, specify the tool(s)*** within the module that should be used, e.g.:

“You should use information in the scenario and the ‘Stacked bar chart’ function within the ‘Explore’ module in the data analytics software.”

Modules in the Data Analytics Software

Module Selection



Explore

- Most important module for A&A
- Used to:
 - Justify risks
 - Identify transactions which require further explanation
 - Identify transactions which may indicate fraud, bias etc.
- Design audit procedures to address risks, or enquires for management

Modules in the Data Analytics Software

Module Selection



Metrics

Used to:

- Support analytical procedures and identification of risks
- Points for inclusion in reports to management
 - E.g. Trade receivables days higher than industry benchmark / credit terms – describe implications and recommendations.

Modules in the Data Analytics Software

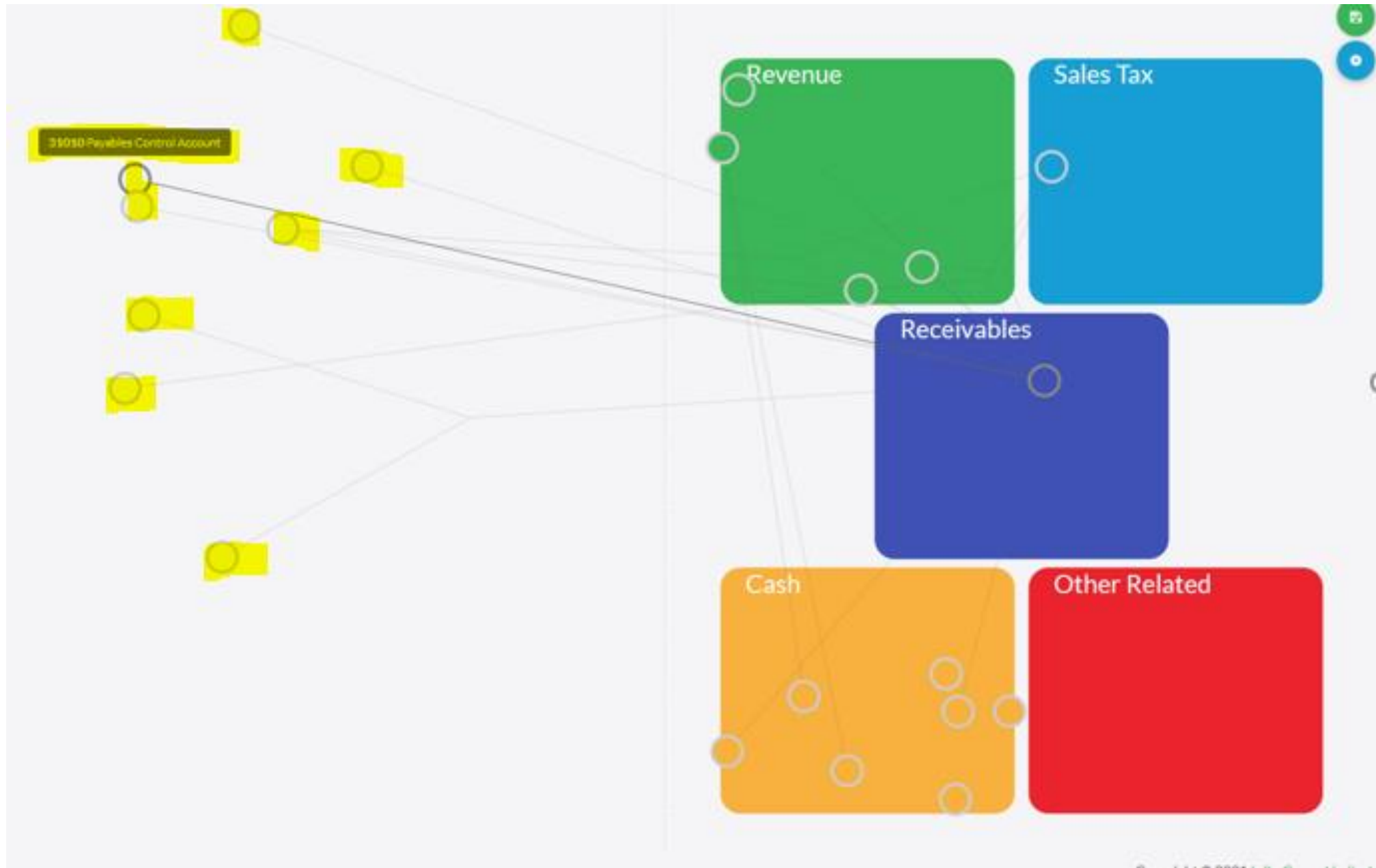
Module Selection



Revenue cascade

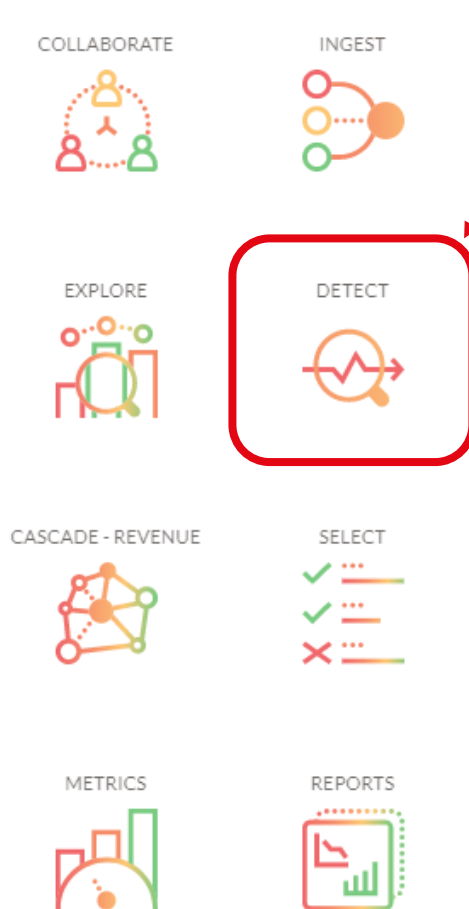
Used to:

- Support questions where revenue has been identified as a key risk area
- Identify and investigate transactions which fall outside of the expected double entry for revenue transactions



Modules in the Data Analytics Software

Module Selection



Detect

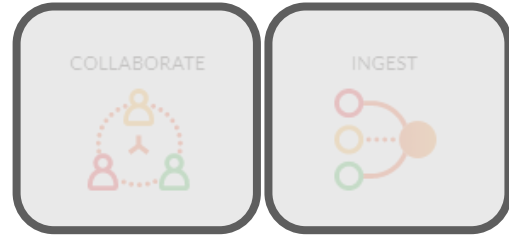
Pre-defined audit tests within the software

Used to:

- Identify specific transactions which may indicate risk, e.g.
 - Round sum
 - Unusual posters / posted by a leaver
 - Outside working hours

Modules in the Data Analytics Software

Module Selection



Collaborate

Ingest

EXPLORE



DETECT



Select

Reports

CASCADE - REVENUE



SELECT



METRICS



REPORTS

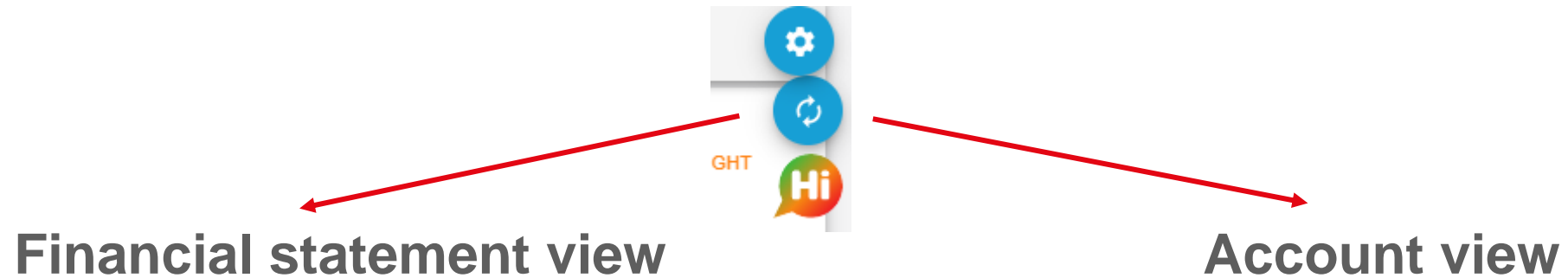


These modules will not be used in the AA exam in the foreseeable future.

Explore module in detail

Two views that candidates can toggle between

Candidates will need to use **both** views



Statement of Profit or Loss	Statement of Financial Position
-----------------------------	---------------------------------

View either SoPL or SoFP

Asset	1.84M	Liability	876K	Equity	360K	Income	3.08M	Expense	2.47M
	(↑47.9%)		(↓0.9%)		(↓1903.3%)		(↑13.6%)		(↑6.3%)

See detailed sub-accounts under each main FS category



Explore module in detail

Financial statement view

Use this to:

- View headline figures that would appear in the financial statements
- Identify significant year on year changes
- Calculate ratios

This replaces the presentation of draft financials in the exam question.

Example:

- Calculate gross profit margin for current and prior year using Income and Cost of Sales



Explore module in detail

Account view

Use this to:

- Analyse individual accounts in more detail
- Sort data to identify risks (document type, user, day posted)
- Drill down to specific transactions

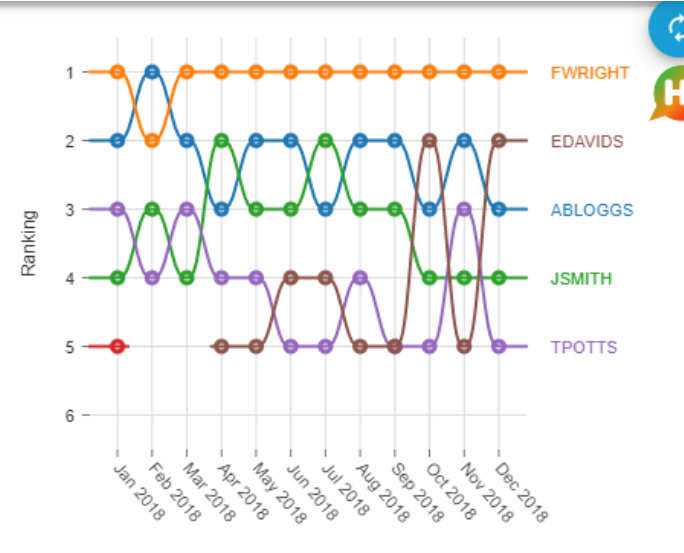
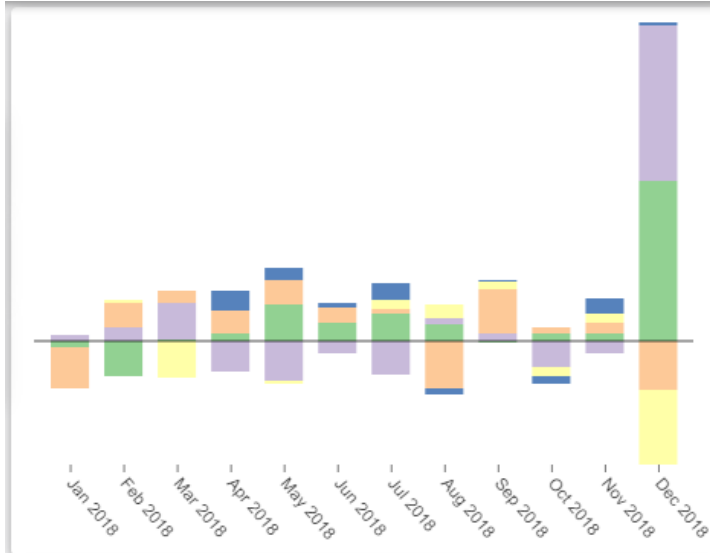
Example:

- The question scenario has indicated a specific category of tangible asset (e.g. plant and machinery) presents a risk

Stacked bar chart

Find unusual levels of a specific type of transaction in each month / weekday / user.

Use the scenario!



Bump chart

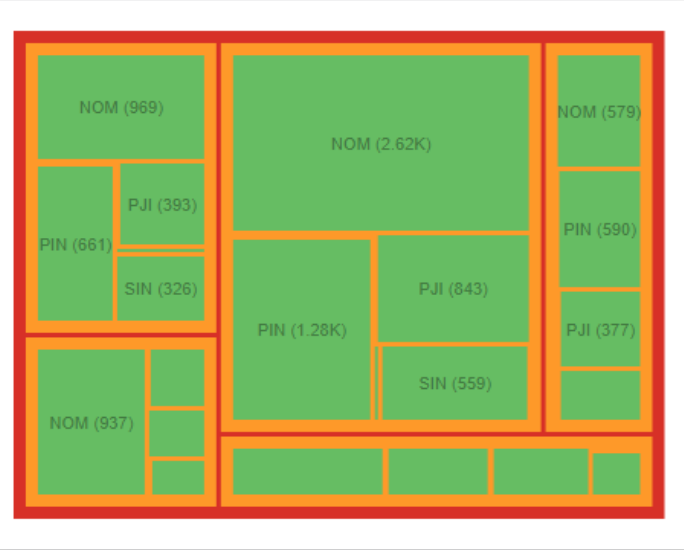
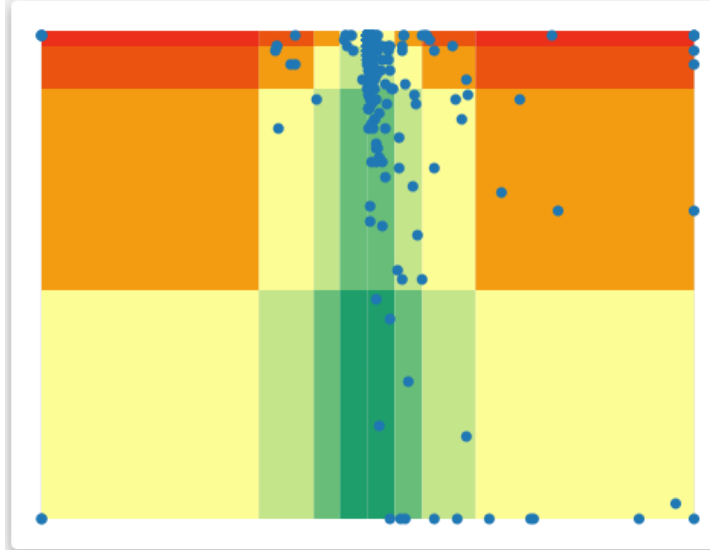
Find users that you wouldn't expect to post to a particular account or interrogate document type

E.g. Find manual journals

Heat map

Interrogate high value, infrequent transactions.

Use this to identify specific high-risk transactions in key areas of audit risk.



Tree chart

Find users that you wouldn't expect to post to a particular account or interrogate document type

Don't miss the small elements!

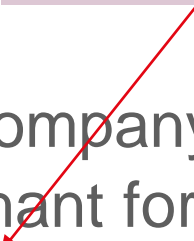
Question walk-through



Elephant data set – Question 5

Revenue identified as key area of audit risk

May be given or made need to calculate



It is 25 February 2019. Your firm is the auditor for Elephant Company (Elephant). You are the audit senior for the final audit of Elephant for the year ended 31 December 2018. **Materiality has been set at £30,000.** Elephant provides marketing services, mainly to digital businesses based in the UK and the rest of Europe. Customers sign a contract with Elephant for the provision of a specific project. Each project is typically short term. However, recently Elephant has entered into a small number of **longer term, multi-year** marketing contracts under which customers are able to outsource all their digital marketing requirements to Elephant for a specified period. **For short term projects, customers are invoiced when the customer signs to confirm their acceptance at the end of a completed project.**

Revenue recognition / cut-off issues?

Elephant data set – Question 5

Revenue identified as key area of audit risk

Revenue
recognition / cut-
off issues?

For longer term outsourcing contracts Elephant normally invoices customers every three months for work done in the preceding quarter. Typical cost of sales incurred by Elephant for each contract include payroll, artwork and promotional products together with travel and subsistence costs incurred by Elephant staff arising from visiting clients.

Elephant data set – Question 5

Revenue identified as key area of audit risk

Spooks SA (Spooks) is an Italian company which approached Elephant in 2018 in relation to a two-year contract to outsource its digital marketing needs to Elephant. Spooks was a new customer to Elephant and undertaking the contract necessitated the hire of Italian speaking staff. As a consequence, Elephant negotiated with Spooks to receive an **upfront deposit of £100,000** from Spooks on signing the contract on **1 December 2018**. This amount was set at an amount equivalent to an estimate of the expected value of work to be performed under the Spooks contract in its **the first six months**.

Specific transaction /
date to look out for –
how has this been
treated?

Elephant data set – Question 5

Revenue identified as key area of audit risk

Financial statement view

- 12% increase in revenue
- Gross profit margin 69.3% (PY) to 70.1% (CY), seems ok
- Filter on income
 - Heatmap – one high risk transaction: £100,000 deposit re contract with Spooks (all recognised in year) => calculate overstatement

Elephant data set – Question 5

Revenue identified as key area of audit risk

Account view

Filter on income

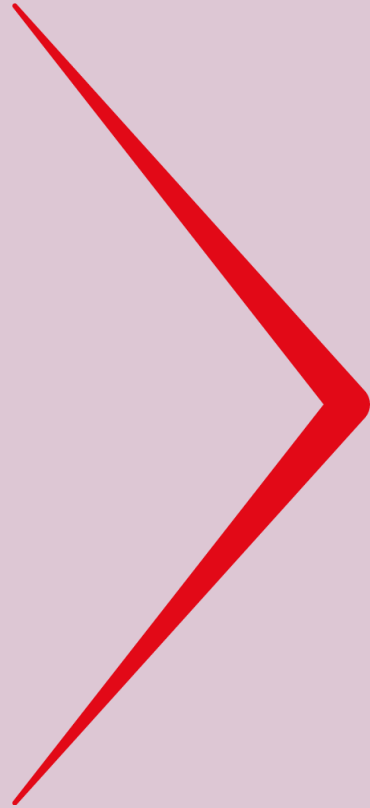
- 18% increase in overseas
- Stacked bar graph:
 - filter on overseas: Dec high = Spooks £100K (different ways to get to same issue)
 - weekend transactions
- Heatmap – new high-risk transaction: £170K reversal of un-invoiced sales – why 9 months to invoice?
- Bump chart – doc type: journals in March/June/Sept = £75K “corrections”



Examiner tips!

- Calculate and compare ratios (as expected historically)
- Use the scenario to guide where to dig deeper into the data
 - Use specific references made to dates, people, customers/suppliers
 - Events that make transactions more risky (e.g. system or personnel changes)
 - Areas that are likely to be more subjective
 - Individuals that pose a risk due to bias, fraud etc.
- State the obvious (e.g. ‘heatmap shows a number of high-risk transactions’)
- Do not:
 - spend all of the time in the software – marks are limited!
 - Wander outside of the key risks identified in the scenario
 - Use modules or tools that are not specified in the requirement

5



***New CBE
Software***

New CBE software

4. You must make sure your answers are clearly visible in the word processing area when you submit your exam. Only your answer in the word processing area will be marked. You must copy over any data from the spreadsheet area to the word processing area for marking.
5. Your answers will be presented to the examiner exactly as they appear on screen: the examiner will not be able to review your spreadsheet area, formulae, or expand rows or columns where content is not visible.

Encourage students to practise using the ICAEW software.

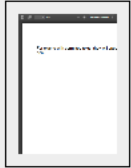
- Candidates should largely be able to use the word processing area to form their AA answers
- We encourage them to use the word processing tools to present their answers clearly:
 - Bullet points
 - Bold / headings
 - Tables
 - Spacing

Resources <<

Question 1

Please access exam standard questions via the ICAEW quesiton bank.

Question 1



Permitted Text

Copy spreadsheet use right click or CTRL+C

Paste into word processing area CRTL+V (not right click available)

Continue to show calculations

Word Processing area - only data in this area will be marked:

Word Processing area toolbar: Arial 12pt, B I U x² x₂, List, Bullets, Paragraph, Undo, Redo, Grid.

sales	cos	margin
100	89	11.00%

sales cos margin
100 89 11.00%

Spreadsheet area - copy any data from the this area to the Word Processing area for marking:

Spreadsheet area toolbar: HOME, INSERT, FORMULAS, DATA, VIEW, SETTINGS

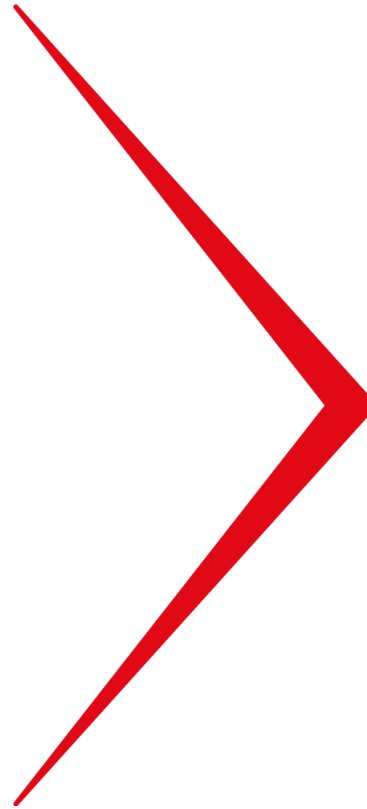
Clipboard: Paste, Undo / Redo

Font settings: Arial 12, Bold, Italic, Underline, Text Color, Background Color

Other settings: Alignment, Numbers, Cell Type, Styles, Cells, Editing

	A	B	C	D	E	F	G	H	I	J	K	L	M
1													
2	sales	cos	margin										
3	100	89	11.00%										
4													
5													
6													
7													
8													
9													
10													
11													
12													
13													
14													
15													
16													
17													

Context menu options: Cut, Copy, Paste Options (Clipboard, Text with formatting, Text without formatting, Number, Formula), Delete..., Clear Contents, Insert Copied Cells..., Filter, Sort



Q&A



[icaew.com](https://www.icaew.com)