

5. Detailed study guide

A Audit framework and regulation

1. The concept of audit and other assurance engagements

- a) Identify and describe the objective and general principles of external audit engagements.^[2]
- b) Explain the nature and development of audit and other assurance engagements.^[1]
- c) Discuss the concepts of accountability, stewardship and agency.^[2]
- d) Define and provide the objectives of an assurance engagement.^[1]
- e) Explain the five elements of an assurance engagement.^[2]
- f) Describe the types of assurance engagement.^[2]
- g) Explain the level of assurance provided by an external audit and other review engagements and the concept of true and fair presentation.^[1]

2. External audits

- a) Describe the regulatory environment within which external audits take place.^[1]
- b) Discuss the reasons and mechanisms for the regulation of auditors.^[1]
- c) Explain the statutory regulations governing the appointment, rights, removal and resignation of auditors.^[1]
- d) Explain the regulations governing the rights and duties of auditors^[1]
- e) Describe the limitations of external audits.^[1]

- f) Explain the development and status of International Standards on Auditing (ISAs).^[1]

- g) Explain the relationship between ISAs and national standards.^[1]

3. Corporate governance

- a) Discuss the objectives, relevance and importance of corporate governance.^[2]
- b) Discuss the provisions of international codes of corporate governance (such as OECD) that are most relevant to auditors.^[2]
- c) Describe good corporate governance requirements relating to directors' responsibilities (e.g. for risk management and internal control) and the reporting responsibilities of auditors.^[2]
- d) Evaluate corporate governance deficiencies and provide recommendations to allow compliance with international codes of corporate governance.^[2]
- e) Analyse the structure and roles of audit committees and discuss their benefits and limitations.^[2]
- f) Explain the importance of internal control and risk management.^[1]

4. Professional ethics and ACCA's Code of Ethics and Conduct

- a) Define and apply the fundamental principles of professional ethics of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.^[2]
- b) Define and apply the conceptual framework, including the threats to the fundamental principles of self-interest, self-review, advocacy, familiarity, and intimidation.^[2]

- c) Discuss the safeguards to offset the threats to the fundamental principles.^[2]
- d) Describe the auditor's responsibility with regard to auditor independence, conflicts of interest and confidentiality.^[1]
- e) Discuss the steps an auditor should take in relation to any breaches of ACCA's Code of Ethics and Conduct.^[2]

B Planning and risk assessment

1. Obtaining, accepting and continuing audit engagements

- a) Discuss the requirements of professional ethics and ISAs in relation to the acceptance / continuance of audit engagements.^[2]
- b) Explain the preconditions for an audit.^[2]
- c) Explain the process by which an auditor obtains an audit engagement.^[2]
- d) Discuss the importance and purpose of engagement letters and their contents.^[1]
- e) Explain the overall objectives and importance of quality management procedures in conducting an audit.^[2]
- f) Explain the quality management procedures which should be in place over engagement resources, engagement performance, monitoring and remediation and compliance with ethical requirements.^[2]
- g) Evaluate quality management deficiencies and provide recommendations to allow compliance with quality management requirements.^[2]

2. Objective and general principles

- a) Identify the overall objectives of the auditor and the need to conduct an audit in accordance with ISAs.^[2]

- b) Explain the need to plan and perform audit engagements with an attitude of professional scepticism, and to exercise professional judgment.^[2]

3. Assessing audit risks

- a) Explain the components of audit risk.^[1]
- b) Describe the audit risks in the financial statements and explain the auditor's response to each risk.^[2]
- c) Define and explain the concepts of materiality and performance materiality.^[2]
- d) Explain and calculate materiality levels from financial information.^[2]

4. Understanding the entity and its environment and the applicable financial reporting framework

- a) Explain how auditors obtain an initial understanding of the entity and its environment and the applicable financial reporting framework.^[2]
- b) Describe and explain the nature, and purpose of, analytical procedures in planning.^[2]
- c) Compute and interpret key ratios used in analytical procedures.^[2]

5. Fraud, laws and regulations

- a) Discuss the effect of fraud and misstatements on the audit strategy and extent of audit work.^[2]
- b) Discuss the responsibilities of internal and external auditors for the prevention and detection of fraud and error.^[2]
- c) Explain the auditor's responsibility to consider laws and regulations.^[2]

6. Audit planning and documentation

- a) Identify and explain the need for, benefits of and importance of planning an audit.^[2]

- b) Identify and describe the contents of the overall audit strategy and audit plan.^[2]
- c) Explain and describe the relationship between the overall audit strategy and the audit plan.^[2]
- d) Explain the difference between an interim and final audit.^[1]
- e) Describe the purpose of an interim audit, and the procedures likely to be adopted at this stage in the audit.^[2]
- f) Describe the impact of the work performed during the interim audit on the final audit.^[2]
- g) Explain the need for, and the importance of, audit documentation.^[1]
- h) Describe the form and contents of working papers and supporting documentation.^[2]
- i) Explain the procedures to ensure safe custody and retention of working papers.^[1]

C Internal control

1. Systems of internal control

- a) Explain why an auditor needs to obtain an understanding of the components of internal control relevant to the preparation of the financial statements.^[1]
- b) Describe and explain the five components of a system of internal control^[2]
 - i) control environment
 - ii) the entity's risk assessment process,
 - iii) the entity's process to monitor the system of internal control
 - iv) the information system and communication
 - v) control activities

2. The use and evaluation of systems of internal control by auditors

- a) Explain how auditors record systems of internal control including the use of narrative notes, flowcharts and questionnaires.^[2]
- b) Evaluate internal control components, including deficiencies and significant deficiencies in internal control.^[2]
- c) Discuss the limitations of internal control components.^[2]

3. Tests of controls

- a) Describe computer systems controls including general IT controls and information processing controls.^[2]
- b) Describe control objectives, control procedures, control activities, direct controls, indirect controls and tests of controls in relation to:^[2]
 - i) The sales system;
 - ii) The purchases system
 - iii) The payroll system
 - iv) The inventory system
 - v) The bank and cash system
 - vi) Non-current assets

4. Communication on internal control

- a) Discuss the requirements and methods of how reporting significant deficiencies in internal control are provided to management and those charged with governance.^[2]
- b) Explain, in a format suitable for inclusion in a report to management, significant deficiencies within a system of internal control and provide control recommendations for overcoming these deficiencies to management.^[2]
- c) Discuss the need for auditors to communicate with those charged with governance.^[2]

5. Internal audit and governance and the differences between external audit and internal audit

- a) Discuss the factors to be taken into account when assessing the need for internal audit.^[2]
- b) Discuss the elements of best practice in the structure and operations of internal audit.^[2]
- c) Compare and contrast the role of external and internal audit.^[2]

6. The scope of the internal audit function, outsourcing and internal audit assignments

- a) Discuss the scope of internal audit and the limitations of the internal audit function.^[2]
- b) Explain outsourcing and the associated advantages and disadvantages of outsourcing the internal audit function.^[1]
- c) Discuss the nature and purpose of internal audit assignments including value for money, IT, financial, regulatory compliance, fraud investigations and customer experience.^[2]
- d) Discuss the nature and purpose of operational internal audit assignments.^[2]
- e) Describe the format and content of internal audit review reports and make appropriate recommendations to management and those charged with governance.^[2]

D Audit evidence

1. Assertions and audit evidence

- a) Explain the assertions contained in the financial statements about:^[2]
 - (i) Classes of transactions and events and related disclosures;
 - (ii) Account balances and related disclosures at the period end.

- b) Describe audit procedures to obtain audit evidence, including inspection, observation, external confirmation, recalculation, re-performance, analytical procedures and enquiry.^[2]
- c) Discuss the quality and quantity of audit evidence.^[2]
- d) Discuss the relevance and reliability of audit evidence.^[2]

2. Audit procedures

- a) Discuss substantive procedures for obtaining audit evidence.^[2]
- b) Discuss and provide examples of how analytical procedures are used as substantive procedures.^[2]
- c) Discuss the problems associated with the audit and review of accounting estimates.^[2]
- d) Describe why smaller entities may have different control environments and describe the types of evidence likely to be available in smaller entities.^[1]
- e) Discuss the difference between tests of controls and substantive procedures.^[2]

3. Audit sampling and other means of testing

- a) Define audit sampling and explain the need for sampling.^[1]
- b) Identify and discuss the differences between statistical and non-statistical sampling.^[2]
- c) Discuss and provide relevant examples of the application of the basic principles of statistical sampling and other selective testing procedures.^[2]
- d) Discuss the results of statistical sampling, including consideration of whether additional testing is required.^[2]

4. The audit of specific items

For each of the account balances stated in this sub-capability:

Explain the audit objectives and the audit procedures to obtain sufficient, appropriate evidence in relation to:

- a) Receivables: ^[2]
 - i) direct confirmation of accounts receivable
 - ii) other evidence in relation to receivables and prepayments
 - iii) other evidence in relation to current assets and
 - iv) completeness and occurrence of revenue.
- b) Inventory: ^[2]
 - i) inventory counting procedures in relation to year-end and continuous inventory systems
 - ii) cut-off testing
 - iii) auditor's attendance at inventory counting
 - v) direct confirmation of inventory held by third parties
 - vi) valuation and
 - vii) other evidence in relation to inventory.
- c) Payables and accruals: ^[2]
 - i) supplier statement reconciliations and direct confirmation of accounts payable
 - ii) obtain evidence in relation to payables and accruals
 - iii) other evidence in relation to current liabilities and
 - iv) purchases and other expenses, including payroll.
- d) Bank and cash: ^[2]
 - i) bank confirmation reports used in obtaining evidence in relation to bank and cash
 - ii) other evidence in relation to bank and
 - iii) other evidence in relation to cash.

- e) Tangible and intangible non-current assets ^[2]
 - i) evidence in relation to non-current assets
 - ii) depreciation and
 - iii) profit/loss on disposal.
- f) Non-current liabilities, provisions and contingencies: ^[2]
 - i) evidence in relation to non-current liabilities and
 - ii) provisions and contingencies.
- g) Share capital, reserves and directors' emoluments: ^[2]
 - i) evidence in relation to share capital, reserves and directors' emoluments.

5. Automated tools and techniques

- a) Explain the use of automated tools and techniques in the context of an audit, including the use of audit software, test data and other data analytics tools. ^[1]
- b) Discuss and provide relevant examples of the use of automated tools and techniques including test data, audit software and other data analytics tools. ^[2]
- c) Explain and evaluate the benefits and challenges of using automated tools and techniques in an audit engagement. ^[2]

6. The work of others

- a) Discuss why auditors rely on the work of others. ^[2]
- b) Discuss the extent to which external auditors are able to rely on the work of experts, including the work of internal audit. ^[2]
- c) Explain the audit considerations relating to entities using service organisations. ^[2]
- d) Explain the extent to which reference to the work of others can be made in the independent auditor's report. ^[1]

7. Not-for-profit organisations

- a) Apply audit techniques to not-for-profit organisations.^[2]

E Review and reporting**1. Subsequent events**

- a) Explain the purpose of a subsequent events review.^[1]
- b) Explain the responsibilities of auditors regarding subsequent events.^[1]
- c) Discuss the procedures to be undertaken in performing a subsequent events review.^[2]

2. Going concern

- a) Define and discuss the significance of the concept of going concern.^[2]
- b) Explain the importance of and the need for going concern reviews.^[2]
- c) Explain the respective responsibilities of auditors and management regarding going concern.^[1]
- d) Identify and explain potential indicators that an entity is not a going concern.^[2]
- e) Discuss the procedures to be applied in performing going concern reviews.^[2]
- f) Discuss the disclosure requirements in relation to going concern issues.^[2]
- g) Discuss the reporting implications of the findings of going concern reviews.^[2]

3. Written representations

- a) Explain the purpose of and procedure for obtaining written representations.^[2]
- b) Discuss the quality and reliability of written representations as audit evidence.^[2]

- c) Discuss the circumstances where written representations are necessary and the matters on which representations are commonly obtained.^[2]

4. Audit finalisation and the final review

- a) Discuss the importance of the overall review in ensuring that sufficient, appropriate evidence has been obtained.^[2]
- b) Describe procedures an auditor should perform in conducting their overall review of financial statements.^[2]
- c) Explain the significance of uncorrected misstatements.^[1]
- d) Evaluate the effect of dealing with uncorrected misstatements.^[2]

5. The Independent Auditor's Report

- a) Identify and describe the basic elements contained in the independent auditor's report.^[1]
- b) Explain unmodified audit opinions in the auditor's report.^[2]
- c) Explain the circumstances in which a modified audit opinion may be issued in the auditor's report.^[2]
- d) Explain the impact on the auditor's report when a modified opinion is issued.^[2]
- e) Describe the format and content of key audit matters, emphasis of matter and other matter paragraphs.^[2]

F Employability and technology skills

- 1. Use computer technology to efficiently access and manipulate relevant information.**
- 2. Work on relevant response options, using available functions and**

technology, as would be required in the workplace.

- 3. Navigate windows and computer screens to create and amend responses to exam requirements, using the appropriate tools.**
- 4. Present data and information effectively, using the appropriate tools.**