

5. Detailed study guide

A Regulatory environment

1. International regulatory frameworks for audit and assurance services

- a) Explain the need for laws, regulations, standards and other guidance relating to audit, assurance and related services.^[2]
- b) Outline and explain the need for the legal and professional framework including:^[2]
 - i) public oversight of audit and assurance practice
 - ii) the impact of the UK Corporate Governance Code on audit and assurance practice
- c) Discuss the role of the audit committee and its impact on audit and assurance practice in relation to:^[2]
 - i) the relationship with the external auditor, including the appointment, removal and monitoring of effectiveness; and
 - ii) the oversight and approval of the provision of non-audit services.

2. Money laundering

- a) Define 'money laundering' and discuss international methods for combatting money laundering.^[2]
- b) Explain the scope of criminal offences of money laundering and how professional accountants may be protected from criminal and civil liability.^[2]
- c) Explain the need for ethical guidance in this area.^[2]
- d) Describe how accountants meet their obligations to help prevent and detect money laundering including record keeping and reporting of suspicion to the appropriate regulatory body.^[2]

- e) Explain the importance of customer due diligence (CDD) also referred to as 'Know Your Customer (KYC)' and recommend the information which should be gathered as part of CDD/KYC.^[2]

- f) Recognise potentially suspicious transactions and assess their impact on reporting duties.^[2]

- g) Describe, with reasons, the basic elements of an anti-money laundering program.^[2]

3. Laws and regulations

- a) Compare and contrast the respective responsibilities of management and auditors concerning compliance with laws and regulations in an audit of financial statements.^[2]
- b) Describe the auditors' considerations of compliance with laws and regulations and plan audit procedures when possible non-compliance is discovered.^[2]
- c) Discuss how and to whom non-compliance should be reported.^[2]
- d) Recognise and recommend when withdrawal from an engagement is necessary.^[2]

B Professional and ethical considerations

1. Code of Ethics and Conduct

- a) Explain the fundamental principles and the conceptual framework approach.^[1]
- b) Identify, evaluate and respond to threats to compliance with the fundamental principles.^[3]
- c) Discuss and evaluate the effectiveness of available safeguards.^[3]
- d) Recognise and advise on conflicts in the application of fundamental principles.^[3]

- e) Discuss the importance of professional scepticism in planning and performing an audit.^[2]
- f) Consider the ethical implications of the external auditor providing non-audit services to a client including an internal audit service.^[2]
- g) Assess whether an engagement has been planned and performed with an attitude of professional scepticism and evaluate the implications.^[3]

2. Fraud and error

- a) Identify and develop an appropriate response to circumstances which indicate a high risk of error, irregularity, fraud or misstatement in the financial statements or a given situation.^[2]
- b) Compare and contrast the respective responsibilities of management and auditors for fraud and error.^[2]
- c) Describe the matters to be considered and recommend procedures to be carried out to investigate actual and/or potential misstatements in a given situation.^[2]
- d) Explain how, why, when and to whom fraud and error should be reported and the circumstances in which an auditor should withdraw from an engagement.^[2]
- e) Consider the current and possible future role of auditors in preventing, detecting and reporting error and fraud.^[2]

3. Professional liability

- a) Recognise circumstances in which professional accountants may have legal liability and the criteria that need to be satisfied for legal liability to be recognised.^[2]
- b) Describe the factors to determine whether or not an auditor is negligent and discuss the auditor's potential liability in given situations.^[2]

- c) Compare and contrast liability owed to client with liability owed to third parties (ie contract vs establishing duty of care).^[3]
- d) Evaluate the practicability and effectiveness of ways in which liability may be restricted including the use of liability limitation agreements.^[3]
- e) Discuss and appraise the principal causes of audit failure and other factors that contribute to the 'expectation gap' (e.g. responsibilities for fraud and error) and recommend ways in which that gap may be bridged.^[3]

C Quality management

1. Quality management (firm and engagement level)

- a) Explain the principles and purpose of quality management of audit and other assurance engagements.^[1]
- b) Describe the elements of a system of quality management (SoQM) relevant to a given firm.^[2]
- c) Evaluate the firm's system of quality management (SoQM) and whether this is effective in the proactive prevention and identification of deficiencies.^[3]
- d) Evaluate whether appropriate quality management has been applied to a given engagement.^[3]

2. Advertising, tendering and obtaining professional work and fees

- a) Evaluate the appropriateness of publicity material including the use of the ACCA logo and reference to fees.^[2]
- b) Outline the determinants of fee-setting and justify the bases on which fees and commissions may and may not be charged for services.^[3]

- c) Discuss the ethical and other professional problems, for example, lowballing, involved in establishing and negotiating fees for a specified assignment.^[3]
- d) Recognise and explain the matters to be considered prior to tendering for an audit or other professional engagement and explain the information to be included in the proposal.^[2]
- d) Interpret the results of analytical procedures, in an unbiased manner and apply professional scepticism to support the identification of contradictory information and assessment of risks of material misstatement.^[3]
- e) Evaluate the results of planning and risk assessment procedures to determine the relevant audit strategy including the auditor's responses.^[3]

3. Professional appointments

- a) Explain the professional and ethical matters to be considered and the procedures that an audit firm/professional accountant should carry out before accepting a specified new client/engagement or continuing with an existing engagement, including:^[3]
 - i) client acceptance
 - ii) engagement acceptance (new and existing engagements)
 - iii) establishing whether the preconditions for an audit are present
 - iv) agreeing the terms of engagement.
- b) Recognise the key issues that underlie the agreement of the scope and terms of an engagement with a client.^[2]
- f) Explain the planning procedures specific to an initial audit engagement.^[2]
- g) Discuss the importance of the auditor gaining an understanding of the entity including the applicable financial reporting framework, its accounting policies, significant classes of transactions, balances and disclosures and the entity's system of internal control and recommend additional information which may be required in gaining that understanding.^[2]
- h) Discuss how transnational audits may differ from other audits of historical financial information (e.g in terms of applicable financial reporting and auditing standards, listing requirements and corporate governance requirements).^[2]

D Planning and conducting an audit of historical financial information

1. Planning, materiality and assessing the risk of material misstatement

- a) Define materiality and performance materiality and demonstrate how it should be applied in financial reporting and auditing.^[2]
- b) Discuss and demonstrate the use of analytical procedures in the planning of an assignment.^[3]
- c) Evaluate and prioritise business risks, audit risks and risks of material misstatement for a given assignment.^[3]

2. Evidence and testing considerations

- a) Identify and describe audit procedures (including substantive procedures and tests of controls (for both direct and indirect controls)) to obtain sufficient appropriate audit evidence from identified sources to support the relevant assertions and disclosures.^[2]
- b) Assess and describe how IT can be used to assist the auditor and recommend the use of automated tools and techniques, such as audit software, test data and other data analytics tools where appropriate.^[2]

- c) Evaluate and interpret the results of data analytics tools when used during planning or evidence collection.^[2]
- d) Recommend additional information which may be required to effectively carry out a planned engagement or a specific aspect of an engagement.^[2]
- e) Apply the further considerations and audit procedures relevant to initial engagements.^[2]
- f) Apply analytical procedures to financial and non-financial data.^[2]
- g) Explain the specific audit problems and procedures concerning related parties and related party transactions.^[2]
- h) Recognise circumstances that may indicate the existence of unidentified related parties and recommend appropriate audit procedures.^[2]

3. Audit procedures and obtaining evidence

- a) Design appropriate audit procedures relating to:^[3]
 - i) inventory (including standard costing systems)
 - ii) non-current assets
 - iii) intangible assets
 - iv) biological assets
 - v) investment properties
 - vi) assets held for sale and discontinued operations
 - vii) financial instruments
 - viii) accounting estimates including fair values
 - ix) government grants
 - x) leases
 - xi) impairment
 - xii) provisions, contingent liabilities and contingent assets
 - xiii) borrowing costs.
 - xiv) employee benefits
 - xv) share-based payment transactions
 - xvi) taxation (including deferred tax)
 - xvii) related parties
 - xviii) revenue from contracts with customers
 - xix) statement of cash flows

- xx) business combinations
- xxi) events after the end of the reporting period
- xxii) the effects of foreign exchange rates
- xxiii) segmental reporting
- xxiv) financial statement notes and related disclosures
- xxv) earnings per share
- xxvi) changes in accounting policy
- xxvii) payroll and other expenses

- b) Explain how the auditor's responsibilities for corresponding figures, comparative financial statements, and 'other information', are discharged.^[3]
- c) Explain the auditor's main considerations in respect of social and environmental matters and how they impact on entities and their financial statements.^[2]

4. Using the work of others

- a) Recognise when it is justifiable to place reliance on the work of an expert (e.g. a surveyor employed by the audit client or audit firm).^[2]
- b) Evaluate the potential impact of an internal audit department on the planning and performance of the external audit.^[2]
- c) Assess the appropriateness and sufficiency of the work of internal auditors and the extent to which reliance can be placed on it. ^[2]
- d) Recognise and evaluate the impact of outsourced functions, such as payroll, on the conduct of an audit.^[3]

5. Group audits

- a) Recognise the specific matters to be considered before accepting appointment as group auditor to a group in a given situation.^[3]

- b) Identify, assess and respond to the risks associated with the audit of group financial statements including:
 - i) assessment of group and component performance materiality,
 - ii) assessment of aggregation risk in a given scenario,
 - iii) the impact of non-coterminous year ends,
 - iv) changes in group structure or a complex group structure.^[2]
- c) Identify and describe the procedures to be performed at the planning stage of an audit of group financial statements, including consideration of the role and work of component auditors.^[3]
- d) Recommend and discuss the communications between the group auditor and the component auditor in a given situation.^[3]
- e) Recognise the audit problems and describe audit procedures specific to: a business combination, including:
 - i) the classification of investments
 - ii) the determination and impairment of goodwill
 - iii) group accounting policies,
 - iv) intra-group trading,
 - v) equity accounting for associates and joint ventures,
 - vi) changes in group structure, including acquisitions and disposals,
 - vi) accounting for a foreign subsidiary.^[3]
- f) In respect of the consolidation process identify and explain the relevant audit risks and audit procedures necessary to obtain sufficient appropriate evidence.^[3]
- g) Evaluation of the quality of work performed by a component auditor and assess the sufficiency and quality of the audit evidence obtained.^[2]
- h) Explain the responsibilities of the component auditor before accepting appointment, and the procedures to be performed in a group situation.^[2]

- i) Justify the situations where a joint audit would be appropriate, including identification of additional risks and challenges associated with the engagement in a given scenario^[2]

E Completion, review and reporting

1. Subsequent events and going concern

- a) Design audit procedures to identify subsequent events which may require adjustment to, or disclosure in, the financial statements of a given entity.^[2]
- b) Evaluate indicators that the going concern basis of accounting may be in doubt and recognise mitigating factors.^[2]
- c) Recommend audit procedures or evaluate the evidence that might be expected to be available and assess the appropriateness of the going concern basis of accounting in given situations.^[3]
- d) Assess the adequacy of disclosures in financial statements relating to going concern and explain the implications for the auditor's report with regard to the going concern basis of accounting.^[3]

2 Completion and final review

- a) Apply analytical procedures for the purposes of evaluation and review and evaluate the results in the context of other audit evidence.^[3]
- b) Assess whether an engagement has been planned and performed in accordance with professional standards.^[3]
- c) Evaluate whether reports issued are appropriate in the relevant circumstances.^[3]

- d) Evaluate as part of the final review the matters (eg materiality, risk, relevant accounting standards) and audit evidence to confirm if sufficient and appropriate evidence has been obtained.^[3]
 - e) Evaluate the use of written representations from management to support other audit evidence.^[2]
 - f) Justify the review procedures which should be performed in a given assignment, including the need for an engagement quality review and the appropriateness of the review performed.^[2]
 - g) Recommend appropriate additional procedures or actions required following review of the assurance work.^[2]
 - h) Describe the importance of the role of the engagement quality reviewer.^[2]
 - i) Evaluate the appropriateness of the engagement quality reviewer in a given scenario, recommending further actions which may be taken within the firm.^[2]
 - e) Advise on the actions which may be taken by the auditor in the event that a modified auditor's opinion is issued.^[3]
 - f) Explain the implications for the auditor's report on the group financial statements of an entity where the opinion on a component is modified in a given situation.^[2]
 - g) Recognise when the use of an emphasis of matter paragraph, other matter paragraph and KAM disclosure would be appropriate and recommend and justify the content of each.^[3]
 - h) Discuss the courses of action available to an auditor if a material inconsistency or material misstatement exists in relation to other information such as contained in the integrated report.^[2]
- 3 Auditor's reports**
- a) Determine the form and content of an auditor's report and assess the appropriateness of the contents of an auditor's report containing an unmodified opinion.^[3]
 - b) Recognise and evaluate the factors to be considered when forming an audit opinion in a given situation, including the effect of uncorrected misstatements, and justify audit opinions which are consistent with the results of audit procedures.^[3]
 - c) Critically appraise the form and content of an auditor's report in a given situation.^[3]
 - d) Assess whether or not a proposed audit opinion is appropriate.^[3]
- 4. Reports to those charged with governance and management**
- a) Critically assess the quality of a report to those charged with governance and management.^[3]
 - b) Advise on the content of reports to those charged with governance and management in a given situation.^[3]

F Other assignments

1. Audit-related and assurance services

- a) Describe the nature of audit-related services, the circumstances in which they might be required, and the comparative levels of assurance provided by professional accountants and distinguish between:^[2]
 - i) audit-related services and an audit of historical financial statements
 - ii) an attestation engagement and a direct engagement.
- b) Describe the main categories of assurance services that audit firms can provide and assess the benefits of providing these services to management and external users.^[3]

- c) Describe the level of assurance (reasonable, high, moderate, limited, negative) for an engagement depending on the subject matter evaluated, the criteria used, the procedures applied, and the quality and quantity of evidence obtained.^[3]

2. Specific assignments

- **Due Diligence**
- **Review of interim financial information**
- **Prospective financial information**
- **Forensic audits**

For each of the other assignments listed above:

- a) Define and describe the purpose of each type of assignment and analyse the appropriate level of assurance which may be offered by a professional firm in relation to these assignments.^[3]
- b) Evaluate the matters to be considered before accepting the engagement, including any ethical and professional considerations.^[3]
- c) Plan the assignment, applying professional scepticism, to gather suitable evidence and provide an appropriate level of assurance in line with the objectives of the assignment.^[2]
- d) Discuss the level of assurance that the auditor may provide and explain the other factors to be considered in determining the nature, timing and extent of examination procedures.^[1]
- e) Describe and recommend appropriate substantive, examination or investigative procedures which can be used to gather sufficient and appropriate evidence in the circumstances.^[2]

3 Auditing aspects of insolvency (and similar procedures)

- a) Explain the meaning of, and describe the procedures involved in placing a company into voluntary or compulsory liquidation or administration.^[2]
- b) Explain the consequences of liquidation or administration for a company and its stakeholders.^[2]
- c) Advise on the differences between fraudulent and wrongful trading and the consequences for company directors.^[2]
- d) Examine the financial position of a company and determine whether it is insolvent.^[2]
- e) Identify the circumstances where administration could be adopted as an alternative to liquidation and explain the benefits of administration compared to liquidation.^[2]
- f) Explain and apply the priority for the allocation of company assets.^[2]

4. Reporting on other assignments

- a) Analyse the form and content of the professional accountant's report for an assurance engagement as compared with an auditor's report.^[2]
- b) Discuss the content of a report for an examination of prospective financial information.^[2]
- c) Discuss the effectiveness of the 'negative assurance' form of reporting and evaluate situations in which it may be appropriate to modify a conclusion.^[3]

5. The audit of social, environmental, sustainability and integrated reporting

- a) Evaluate the matters to be considered before accepting social, environmental, sustainability assurance or integrated reporting engagements, including any ethical and professional considerations.^[3]

- b) Plan an engagement to provide assurance on a report on social, environmental or sustainability matters.^[2]
- c) Describe the difficulties in measuring and reporting on economic, environmental, social and sustainability information and give examples of performance measures, non-financial key performance measures and sustainability indicators.^[2]
- d) Describe substantive procedures to detect potential misstatements in respect of socio-environmental and sustainability matters.^[2]
- e) Discuss the level of assurance that the auditor may provide in reporting on sustainability information:
 - i) As part of 'other information' with the financial statements; or
 - ii) Separate sustainability report^[1]
- f) Discuss the form and content of an independent verification statement of an integrated report or sustainability information.^[2]

G Current issues and developments

Discuss the relative merits and the consequences of different standpoints taken in current debates and express opinions supported by reasoned arguments.

1. Professional and ethical developments

- a) Discuss emerging ethical issues and evaluate the potential impact on the profession, firms and auditors.^[3]
- b) Discuss the content and impact of exposure drafts, consultations and other pronouncements issued by FRC and IFAC and its supporting bodies (including IAASB, IESBA and TAC).^[3]

2. Developments in sustainability assurance

- a) Discuss current issues and challenges in the development of sustainability assurance standards, including the need for a standardised set of assurance standards.^[2]

3. Other current issues

- a) Discuss current developments in auditing standards including the need for new and revised standards and evaluate their impact on the conduct of audits.^[3]
- b) Discuss current developments in business practices, practice management, audit methodology and evaluate the potential impact on the conduct of an audit and audit quality.^[3]
- c) Discuss the proposed changes to the audit profession in the UK and critically evaluate the implications of these changes for companies and audit firms and their impact on audit process and quality.^[3]
- d) Discuss current developments in emerging technologies, including big data and the use of automated tools and techniques such as data analytics and sustainability reporting and the potential impact on the conduct of an audit and audit quality.^[3]
- e) Discuss the impact of significant global events on audit practice.^[3]

H Professional skills

1. Communication

- a) Inform concisely, objectively and unambiguously, adopting a suitable style and format, using appropriate technology.^[3]
- b) Advise using compelling and logical arguments, demonstrating the ability to counter argue where appropriate.^[3]

- c) Clarify and simplify complex issues to convey relevant information in a way that adopts an appropriate tone and is easily understood by and reflects the requirements of the intended audience.^[3]

2. Analysis and Evaluation

- a) Investigate relevant information from a range of sources, using appropriate analytical techniques to establish reasons and causes of issues, connections between different sources of information and to determine significant risks and appropriate responses.^[3]
- b) Consider information, evidence and findings carefully, reflecting on their implications and how they impact the engagement, audit firm or audit client.^[3]
- c) Assess and apply appropriate judgement when considering ethical and professional issues, audit matters and when making conclusions or recommendations, taking into account the implications of such decisions on the audit firm, engagement and audit client.^[3]
- d) Appraise information objectively, in order to effectively prioritise audit issues, explore suitable audit responses and when making decisions, devising courses of action or determining audit conclusions.^[3]

3. Professional scepticism and judgement

- a) Explore the underlying reasons for issues, applying an attitude of a questioning mind, beyond what is immediately apparent from the usual sources and opinions available and demonstrate the ability to be alert to, and identify, conditions which might indicate misstatements or the existence of fraud or error.^[3]

- b) Question contradictory information or facts, opinions, assertions and the reliability or inherent bias of information presented, by seeking corroboratory or additional information to either support or reject its acceptance.^[3]

- c) Challenge and critically assess the information and evidence presented, or decisions made, to reach a conclusion on whether sufficient and appropriate evidence has been obtained on which to base the audit opinion.^[3]
- d) Demonstrate appropriate professional judgement, including the application of appropriate auditing, accounting and ethical standards, to draw conclusions and make informed decisions about the courses of action which are appropriate in the context of the engagement.^[3]

4. Commercial Acumen

- a) Demonstrate awareness of any wider external factors or implications, in a given scenario, for the audit engagement, audit firm or audit client.^[3]
- b) Recognise key issues and limitations, and consider the plausibility, and the practical or commercial implications, of recommendations made in the context of the engagement and audit firm.^[3]
- c) Show insight and perception in understanding the wider implications and impact of implementing relevant recommendations and demonstrate acumen in arriving at suitable conclusions.^[3]

I 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 required by the workspace.**

- 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.**