



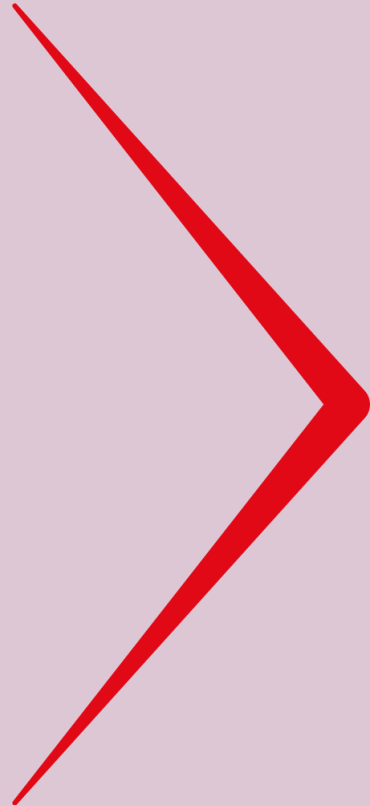
# ***Audit & Assurance***

2 FEBRUARY 2024

# ***Agenda***

- 1) 2023 Candidate Performance**
- 2) Syllabus and Learning Materials Updates**
- 3) Use of Data Analytics Software**
- 4) Focus on... Reporting and Sustainability**

# 1



## ***2023 Candidate Performance***

- Pass rate analysis
- Qualitative feedback

# *Pass rate analysis*

	2023 %	2022 %	2021 %	2020 %	2019 %
<b>March</b>	74.8	76.4	87.7	84.6	78.9
<b>June</b>	84.3	77.6	73.0	N/A	79.9
<b>September</b>	80.1	75.9	74.2	81.5	79.0
<b>December</b>	79.0	74.3	79.8	75.2	75.7

There is a consistency across the sittings with slightly better performance in June 2023 over the other sittings

# ***Qualitative feedback – Good news***

- Continued strong performance in identifying controls and suggesting control procedures
- Good identification of ethical threats and improved descriptions
- Slight improvement in procedures in Q2 but still remains an area for improvement

# ***Qualitative feedback – Good news (continued)***

- Better descriptions on average of reasons why an identified transaction may be unusual in Inflo
- Continued strong performance in the basics of reporting (although a lack of understanding beyond this)
- Good performance in current issues around impact of climate change and sustainability issues

# ***Qualitative feedback – Bad news***

- Lack of ability to use anything other than the basic functions in Inflo
  - Many candidates are only able to use the 'Heat Map' and cannot follow instructions to do anything other than this
- Continued non-attempt of the Data Analytics question
  - Still a significant number of candidates not attempting the question at all
- Evidence of lack of understanding of relationship between sampling and materiality
  - Candidates unable to extrapolate mis-statements and draw conclusions

# ***Qualitative feedback – Bad news***

- Lack of ability to follow instructions given in the requirement
  - If asked to ‘Compare X with Y’ a significant number of candidates simply do not do this
- Although able to identify ethical threats, candidates are often unable to explain why they are a threat using appropriate language from the code
  - In long-form ethics questions threats need to be linked to the right reason why a threat to earn the mark
- Continued lack of ability to use the open book resources to score easy marks in a question
  - If a standard is mentioned in the requirement, it is often a hint to go and look at it
  - The mark plan will often closely follow the open book in such a question



# ***Qualitative feedback – Bad news***

- Procedures continue to be the most disappointing element of performance
  - Evidence that candidates are unable to link specific procedures to specific risks
  - Significant minority continue to suggest ‘control’ procedures/recommendations rather than ‘audit’ procedures
- Inability to go beyond the basics in a reporting question
  - Students should be able to make a conclusion based on the scenario
  - A ‘scattergun’ approach of stating all potential permutations will not score extra marks
  - Lack of understanding of areas other than material misstatement/limitation on scope

# Presentation

Please remind candidates to press return after each separate point made!

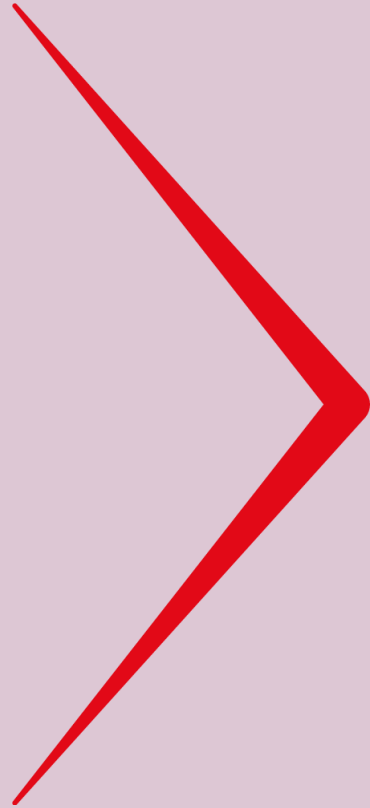
justification

revenue is likely to be overstated in the financial statements. Revenue has increased by 18.5% in the next year, a large increase. this is not in line with the number of new homes, which they have a revenue increase of 16.1% but the number of new homes is just 8% and the number of existing homes is increasing by 24.1% and the national amount is increasing by just 17%. therefore these are overstated. The gross profit has increased by 29.5%, these do not align, and why is this the case? this does not align with the fact that competitors have been able to produce a better product, therefore they are going to reduce the amount of customers buying their products. The way the income is posted into the financial statements also does not seem to be in line with the correct cut off. when the income is received this is posted to the income, the contract amount should either be recognised as deferred income and when the goods are installed the income recognised, or the income recognised over the period of the contract. the discount also is recognised incorrectly which overstates the revenue, they should be recognising a provision for the discounts to be made and not crediting all the income, again overstating it with the wrong accounting treatment. they have also been invoicing the customers more than once and therefore they have weak internal controls and revenue will have double amounts it shouldn't. upfront deposits are received and likely all gained as income in that period and therefore overstating the revenue procedures.

they should inspect the customer complaints and see correspondence which has been conducted to see if these claims to double invoicing are correct. this is likely going to reduce revenue. Also with regards to this board minutes should be inspected to ensure if this has been spoken about and what they plan to do in regards to it. Also bank reconciliations of the amounts received from customers should be checked to the invoices sent to customers, any outstanding should be looked into. Data analytics should be used for the posting of the revenue, any anomalies in the data should be highlighted and looked into. Postings of the revenue at the year end should be checked, gaining one at the year end and one dated after and ensuring they are posted in the correct year, this will ensure the cut off of the balances is correct. a test run of the cloud based system by carrying out a dummy run of the system should be carried out to see if double invoices are received. written confirmation for the reasonableness of the revenue balance should be gained from management to ensure they believe this is correct. Recalculate the discounts which have been posted against the revenue to ensure these have not been understated. using an independent provider for exchange rates, you should check the translation of the exchange rate amounts is correct. recalculate the discounts given to customers, to ensure these amounts are correct also not just the amounts posted into the revenue account. vouch the posting of the deposit is put into the income for just that year and therefore highlight as incorrect.

Example from D23 Q2.2

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***Syllabus and  
Learning Materials  
Updates***

# ***Exam Format and Contents***

- Exam structure
  - 4-5 SFQs (20 marks), 3 LFQs (80 marks)
- Syllabus weightings
  - Legal and other professional regulations, ethics, accepting and managing engagements and current issues - 30%
  - Planning and performing engagements - 50%
  - Concluding and reporting on engagements - 20%
- Other points to note:
  - DAS questions will be **15-20 marks** (see later)
  - Risk questions may ask students to identify risks and/or justify them, eg, Q20 Ecowaste, Q78 Safe-T plc
  - Examinable current issues have featured in 2023 papers and this is likely to continue

# ***Learning Outcomes***

Removed to make syllabus size more manageable:

- 1d: identify the sources of liability (including professional negligence) arising from an assurance engagement and their impact upon the conduct of the engagement
- 1k: describe the role of the national and international standards
- 1o: describe the principal causes of audit failure and their effects and the gap between outcomes delivered by audit engagements and the expectations of users of auditor's reports
- 2n: discuss the differences between the audit of a non-specialised profit-oriented entity and the audit of a given specialised profit-oriented entity
- 2o: discuss the differences between the audit of a non-specialised profit-oriented entity and the audit of a given not-for-profit entity

# Learning Outcomes

Changed re sustainability:

- 1j: explain, in non-technical language, significant current issues (including sustainability-related and climate-related risks and opportunities) being dealt with by the accountancy profession, government bodies, the national standard-setting body and the IAASB
- 1k: explain, using appropriate examples, the main ways in which sustainability and climate change national legislation, including GDPR, affects assurance
- 2d: identify the risks arising from, or affecting, a given set of business processes (including risks associated with sustainability and climate change, technological advances an entity's use of emerging technology, cyber security and GDPR) and circumstances and assess their implications for the engagement
- 2e: identify the risks arising from error, fraud and non-compliance with law and other regulations, including sustainability and climate change and GDPR, and assess their implications for the engagement
- 2f: assess significant business risks (including risks associated with going concern, sustainability and climate change, technological advances, cyber security and GDPR) identified for their potential impact upon an organisation, in particular their potential impact on performance measurement
- 2j: determine an approach appropriate for an engagement for a specified organisation which addresses:
  - ~~the assurance of entities' published sustainability and corporate responsibility report; and~~
  - the financial statement implications of sustainability and climate change, including sustainability-related and climate-related risks and opportunities

# Learning Outcomes

Minor wording changes:

- 3e: draft suitable extracts for an assurance report (including any report to those charged with governance ~~the management~~ issued as part of the engagement) in relation to a specified organisation on the basis of given information, including in the extracts (where appropriate) statements of facts, their potential effects, and recommendations for action relevant to the needs and nature of the organisation being reported upon
- 3j: draft suitable extracts for an auditor's report (and any report to those charged with governance ~~the management~~ issued as part of the engagement) in relation to a specified organisation on the basis of given information, including in the extracts (where appropriate) statements of facts, their potential effects, and recommendations for action relevant to the needs and nature of the organisation being reported upon.

# ***Open Book***

## **Updated**

- ISAs (UK) updated to May 2022 versions (converging changes from quality management standards)
- ISA (UK) 600 (Revised September 2022) Special considerations – audits of group financial statements (including the work of component auditors)
- ISQM (UK) 1 (Revised March 2023) Quality management for firms that perform audits or reviews of financial statements, or other assurance or related services engagements
- ISQM (UK) 2 (Revised March 2023) Engagement quality reviews



# Workbook

## Main changes:

- Significant additional sustainability content added throughout
- Removal of old Chapter 11 *Audits of different types of entity*
- New Chapter 11 *Performing an audit engagement*
  - Audit procedures
  - Using the work of others (updated for ISA (UK) 600 revised)
  - Auditing accounting estimates
  - DAS
- Chapter 2: ISA (UK) 240 improved
- Chapter 3: Professional standards/IAASB sections removed, current issues updated
- Chapter 4: Ethics reworked to make ethical principles clearer
- Chapter 5: Liability section removed, new section on ISA (UK) 220 Quality Management added

# ***Question Bank***

## **Main changes:**

- Full review of content to make study-manageable in light of new questions being added
  - Reduced from 110 to 91 questions
  - Syllabus-based sections – some questions removed; others added from exams removed
- June 2022, September 2022, December 2022 and March 2023 exams added
- DAS question marks weighting now minimum 15 marks (to reflect move to 15-20 marks)
- New Q32 Elephant Seven DAS Detect module question (20 marks)
- New Q82.3 sustainability question
- Number of SFQs in full exams reduced to reflect current exam format
- Updated questions and solutions for learning outcome changes
- 2-mark questions removed/adapted

# ***Electronic Question Bank***

## **Main changes:**

- Now organised by syllabus area
- Some additions/removals to reflect syllabus changes
- 2-mark questions removed/adapted

# ***Mock Exams***

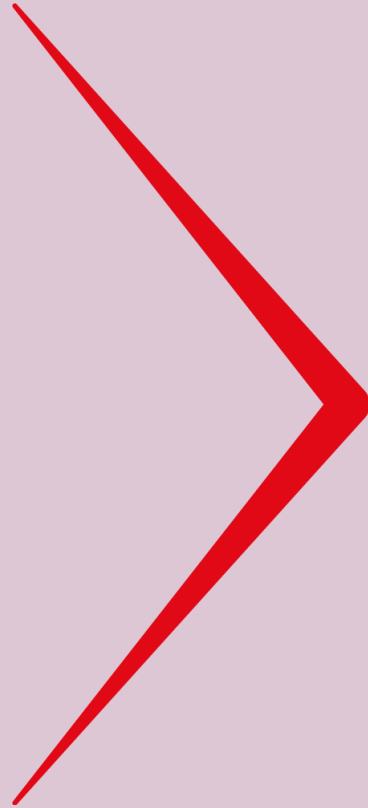
## **Main changes:**

- DAS questions adjusted to be 15-20 marks (mainly by using headroom) and marks adjusted on other questions
- Sustainability questions added (Mock 1 Q1.5, Mock 2 Q1.5)
- Areas no longer examinable removed (Mock 1 Q1.5, Mock 1 3.1(5), Mock 2 Q1.5, Mock 5 Q1.1(a), Mock 6 2.3(a))
- Various tweaks in mark plans (mainly to ethics/reporting wording and clarity of marks)

# ***DAS Materials***

- Explanatory Guidance Notes 2024:
  - 15-20 marks for 2024 exams (rather than 10-12 marks)
- Elephant practice question screenshots – new Detect question added
- Examiners' **article** about answering Inflo questions is still relevant

3



*Use of Data  
Analytics  
Software*

# ***Data Analytics Software (DAS) in the AA exam***

- New approach:
  - **15-20 marks in one Long Form Question** (will not appear in SFQs)
  - In a discrete part of question
  - Requirement will **specify which module(s)** to use (and may specify a visualisation)
  - **No** marks for points identified using other modules
  - Eg, in a justify / identify risks question: points need to be identified **from Inflo**
- All examinable modules could be tested in 2024
- Expect more than one module within a question

# ***What the DAS Marks Change Means***

Candidates are highly unlikely to pass the Audit and Assurance exam in the following circumstances:

- If they do not attempt the DAS question
- If they attempt the question based on the scenario only, ie, without looking in Inflo
- If they do not know how to use any function other than the 'Heat Map'



# ***How Candidates Should Study For DAS***

- Prioritise DAS skills.
  - Some of the easiest marks to obtain in AA are in the DAS question with the most basic of skills
- Start early.
  - DAS should not be left until revision when other content takes over
- Practise following instructions
  - Too many candidates simply **do not do what they are asked** in the requirement
- Gain a working knowledge of all examinable modules and routines

# ***Addressing DAS Issues – March 2023:***

March 2023 Question 3.1 (First Bullet):

1. In your firm's data analytics software:

- Use the 'Detect' module to identify all large value transactions above materiality posted on Saturdays and Sundays. Of those transactions, identify any transactions that are unusual, explaining why those transactions are a concern.

Main Problems:

- Not able to use 'Detect' at all (using 'Explore' or wrong routine in 'Detect')
- Not Identifying ALL large value transactions (not only unusual ones)
- Not considering the result of the posting (inflating revenue)

# Addressing Issues – March 2023:

## March 2023 Answer 3.1 (First Bullet):

### Transactions above materiality (£482,000) posted on a weekend

Transaction 1886 ('Payroll Jan 22') for £1,104,259 (posted Sunday 6/2/2022, effective 31/1/2022)  
Transaction 2339 ('Allowance for Doubtful Debts Mar 22') for £568,000 (posted Sunday 3/4/2022, effective 31/3/2022)  
Transaction 2503 ('Write-off Apr 22') for £568,000 (posted Saturday 7/5/2022, effective 30/4/2022)  
Transaction 2519 ('Snell Payroll Services') for £550,000 (posted Saturday 4/6/2022, effective 30/4/2022)  
Transaction 2818 ('Payment entry') for £550,000 (posted Sunday 3/7/2022, effective 30/4/2022)  
Transaction 2837 ('Jul 22 Payroll') for £1,137,649 (posted Saturday 6/8/2022, effective 31/7/2022)  
Transaction 3338 ('Oct 22 Payroll') for £1,065,675 (posted Sunday 6/11/2022, effective 31/10/2022)

### Unusual transactions

Transaction 2503 credits (increases) revenue (account 5020-60 SAAS Revenue) rather than crediting (reducing) account 8600-10 Bad Debt Expense where it was originally charged.

It is described as a write-off, but is not a write-off.

It is actually a reversal of the allowance for doubtful debts made in transaction 2339.

There is no net effect on profit, but the misclassification of the reversal inflates both revenue and expenses.

Transaction 2519 is suspicious as the name of the supplier company coincides with poster L Snell's surname and L Snell may be involved with the company.

If the transaction is legitimate and L Snell is key management personnel of CSL, a related party disclosure may be required.

The charge has been made to 6200-70 Salaries, but the fact that it is a payment to 'Snell Payroll Services' suggests it is an administrative cost relating to payment of salaries rather than salaries.

Transaction 2818 is a payment for exactly the same amount as transaction 2519.

The line description is simply 'Supplier', however other entries in account 2000-10 Accounts Payable have a supplier number.

Transactions 2519 and 2818 are posted 4 June and 3 July, ie, approximately one and two months respectively after their 30/4/2022 effective date.

Transactions 2339, 2503, 2519 and 2818 are for round sums which is suspicious, and characteristic of a fraudulent journal entry per ISA 240.

### Easy marks not picked up:

- Asked to identify ALL transactions that met criteria and many did not list them
- The effect of the transaction was not considered
- Unusual posters / dates / times / round sums should be pointed out

# ***Addressing DAS Issues – March 2023:***

March 2023 Question 3.1 (Second Bullet):

- Use the 'Explore' module to investigate the cut-off in December 2022 for the licence fee income for transactions in account 5020-60 (SAAS Revenue) commenting on the timing of the revenue recognition.

**(12 marks)**

Main Problems:

- Not attempting this part of the question (there will now often be multiple parts to the DAS question)
- Not picking up on the clue in the requirement that this related to the timing of revenue

# Addressing Issues – March 2023:

March 2023 Answer 3.1 (Second Bullet):

## Revenue recognition

Revenue for 2022 includes licence fee revenue for January 2023 (transactions 3742, 3743, 3744, 3746-3771, 3774, 3776-3784, 3793) and may therefore be overstated.

Annual and periodic fees in December (transactions 3745, 3772, 3773) include some 2023 revenue.

An adjustment should be made to reclassify 2023 revenue as deferred income.

There is an adjustment for deferral of revenue in November (transaction 3660) and other months, but not in December.

An adjustment should also be made to release previously deferred revenue relating to December 2022, similar to the adjustment made to recognise previously deferred revenue relating to November (transaction 3661).

Easy marks not picked up:

- The dates were clear as to those transactions that did not relate to the year
- Candidates should be able to suggest that these be deferred

# ***Addressing DAS Issues – December 2023:***

## Dec 2023 Requirement 3.1 (a)

1. In your firm's data analytics software:

(a) Using the 'Explore' module, perform substantive analytical procedures and justify why payroll expenses (accounts 6200-70, 6210-11 and 6230-10) is a significant risk for the audit. As part of your answer you should:

- calculate an expected balance for each of the account codes;
- consider unexpected relationships between the account codes; and
- identify and explain any unusual transaction(s).

### Main Problems:

- Not creating any expectation
- Not comparing any expectation that was created with the actual
- No analysis beyond the superficial

# Addressing DAS Issues – December 2023:

## Dec 2023 Answer to 3.1 (a)

### 6200-70 Salaries

Salaries has increased by 14% (£1,371k) compared to the prior year figure of £10,156k. The change year on year is material.

Applying the 12.9% (271/240) increase in employees and 6% (8% x 9/12 months) pro-rated pay rise results in an expected salaries expense of £12,156k.

Compared to the actual current year figure of £11,528k, the difference to expectation is £628k. The difference is material and could indicate a risk of understatement.

The pay rise of 8% was only applied to April. The regular payroll transaction posted in May was made by J Snell who does not normally post to this account.

### 6210-11 Salaries national insurance (expected balance and relationships)

Salaries national insurance has decreased by 5% (£64k) compared to the prior year figure of £1,401k.

This decrease is inconsistent with the increase in salaries expense. Salaries national insurance has been incorrectly applied as 11.6% (£1,337k / £11,528k) of salaries instead of 13.8% which could indicate a risk of understatement of payroll tax liabilities or payments to HMRC.

The expected salaries national insurance expense is £1,678k (£12,156k x 13.8%).

Compared to the actual current year figure of £1,337k, the difference to expectation is £341k. The difference is material and could indicate a risk of understatement.

### 6230-10 Company profit sharing bonus (expected balance and relationships)

The bonus has increased by 85% (£293k) compared to the prior year. The change year on year is material.

Applying the 4% bonus (4% x £12,156k) and the additional bonus of £522k results in an expected bonus expense of £1,008k.

Compared to the actual current year figure of £636k, the difference to expectation is £372k. This difference is material and could indicate a risk of understatement.

Account 6230-10 does not contain a bonus for November and December.

Transaction 3841 for £251,741 ('Additional Dec 22 bonus accrual') is identified.

Posted as £251k instead of £521k which could be a transposition error.

It is posted by L Snell who is a person that does not normally post to this account.

National insurance has been calculated correctly as £72k (£521k x 13.8%).

## Easy marks not picked up:

- No expectation (credit was awarded based on own figures)
- No comparison
- No identification of unusual posters

# ***Addressing DAS Issues – December 2023:***

Dec 2023 Requirement 3.1 (b)

- (b) Using only the 'Keywords' routine in the 'Detect' module, for the term '**ceo**', identify transactions which are likely to be related party transactions. Justify why each transaction is a concern.

Main Problems:

- Leaving this part of the requirement out altogether
- Simply identifying the requirement without relating it to the scenario
- No justification



# Addressing DAS Issues – December 2023:

## Dec 2023 Answer 3.1 (b)

### Detect – transactions

The following two transactions are identified:

- Transaction 3632 for £10,000 ('ZM Consulting Ltd (no invoice – CEO)').
- Transaction 3842 for £12,000 ('ZM Australia trip – per CEO e-mail ').

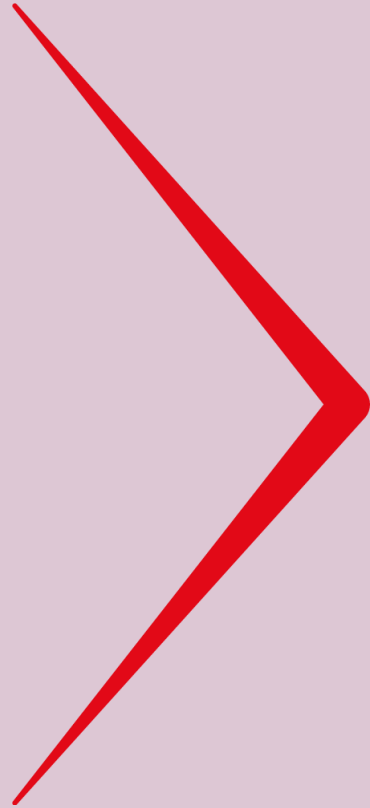
These transactions are a concern due to the following reasons:

- Neither transaction contains VAT.
- They are paid directly from the bank which is inconsistent with other transactions which are credited to trade payables.
- The descriptions contain little description and may be characteristic of a fraud per ISA (UK) 240.
- The amounts are round numbers which are suspicious and characteristic of fraud per ISA (UK) 240.
- ZM is wholly owned by Zakariah Matting, Leila's husband and may not be on arm's length basis.
- These transactions are likely to be material by nature and must be disclosed in the financial statements.

As stated previously, every student should be able to identify and explain what is suspicious about transactions that...

- are posted outside normal working hours (07:00 to 19:00 Monday to Friday)
- have round number figures, particularly manual journals
- have retrospective effective dates
- have suspicious descriptions
- have descriptions that do not match the nature, account, or amount
- appear to be incorrectly calculated based on information provided in the scenario
- reclassify unusual items from one account to another
- are posted by staff who have left or who would not normally post such transactions

**4**



***Focus on...  
Reporting and  
Sustainability***

# ***Reporting – Areas where candidates generally perform well***

Reports to those charged with governance

- Deficiencies; Implications; Recommendations

**Auditor's reports**

- Limitation on scope
- Material misstatement

# ***Reporting – Areas where candidates often do not perform well***

## **Reports to those charged with governance**

- Matters to be communicated to those charged with governance (S22 Q4)

## **Auditor's reports**

- 'Material' vs 'material and pervasive'/ Cumulative materiality (D22 Q4)
- Contents/listed vs unlisted reports (S22 Q3/Q4, M22 Q3)
- Responsibilities/ Companies Act requirements (M23 Q4, S22 Q4, M22 Q3)
- Key audit matters (D23 Q4, J22 Q4)
- Not a going concern (D23 Q4, S23 Q4)
- Materiality uncertainty related to going concern (J23 Q4, M23 Q4)
- Emphasis of matter paragraphs (D23 Q4, S23 Q4, J22 Q4)
- Other matter paragraphs (D22 Q4)
- Other information (including sustainability information) (D22 Q4)
- Subsequent events (M23 Q4)

# ***Sustainability***

- Significant amount of new content added to the Workbook
- Main focus in 2024 will be the effects on the entity/audit/auditor
- Assurance on the sustainability disclosures themselves is not (currently) examinable
- Sustainability practice questions:
  - Question bank Q73.4 PetroCom (M22)
  - Question bank Q82.3 Albadawn
  - Question bank Q87.2 Woodville (D22)
  - Mock exam 1 Crocus Q1.5
  - Mock exam 2 Daisy Q1.5
- May appear in more than one question



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