

## Audit and Assurance Services (GBR)

### AIM

To ensure that candidates can exercise judgement and apply techniques in the analysis of matters relating to the provision of audit and assurance services, and can evaluate and comment on current practices and developments.

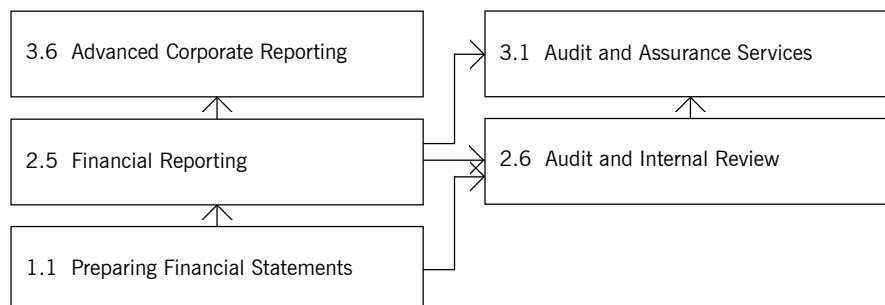
### OBJECTIVES

On completion of this paper candidates should be able to:

- demonstrate their ability to work within a professional and ethical framework
- understand current issues and developments relating to auditing and the provision of audit-related and assurance services
- explain and evaluate the auditor's position in relation to the acceptance and retention of professional appointments
- evaluate and recommend quality control policies and procedures
- identify and describe the work required to meet the objectives of audit and non-audit assignments
- apply and evaluate the requirements of relevant Statements of Auditing Standards
- evaluate findings and the results of work performed and draft suitable reports on assignments
- demonstrate the skills expected in Part 3.

### POSITION OF THE PAPER IN THE OVERALL SYLLABUS

Candidates need a thorough understanding of Paper 2.6 Audit and Internal Review and knowledge of Paper 2.5 Financial



Reporting concerning the preparation and presentation of financial statements. Paper 3.1 may draw on aspects of information technology, covered in Paper 2.1 Information Systems, by considering its impact on assignments.

Paper 3.1 develops the knowledge gained in Paper 2.5 Financial Reporting by introducing the audit implications of accounting treatments.

Paper 3.1 develops the knowledge gained in Paper 2.6 Audit and Internal Review by:

- extending the basic awareness of professional codes and fundamental principles to a detailed understanding of rules of professional conduct
- introducing practice management
- extending the application of procedures involved in planning, conducting and reporting on audit assignments to group audits, audit-related services and non-audit assignments

- critically evaluating procedures and reports
- introducing current issues and developments.

### SYLLABUS CONTENT

#### 1 Professional and ethical considerations

- (a) Rules of professional conduct
  - (i) integrity, objectivity and independence
  - (ii) professional duty of confidence
  - (iii) changes in professional appointments
  - (iv) books, documents and papers
  - (v) corporate financial advice
  - (vi) conflicts of interest.
- (b) Professional responsibility and liability
  - (i) fraud and error
  - (ii) professional liability (including negligence)
  - (iii) misconduct
  - (iv) expectation gap
  - (v) professional indemnity insurance
  - (vi) insider dealing.

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- (c) Regulatory environment
  - (i) corporate governance
  - (ii) Code of Best Practice
  - (iii) audit committees
  - (iv) internal financial control effectiveness
  - (v) laws and regulations in an audit of financial statements.

### 2 Practice management

- (a) Quality control practices and procedures.
- (b) Advertising, publicity and obtaining professional work.
- (c) Fees.
- (d) Tendering.
- (e) Terms of engagement.

### 3 Audit process

- (a) Audit strategy including:
  - (i) risk-based auditing
  - (ii) systems audits
  - (iii) balance sheet approach
  - (iv) revenue, expenditure and other cycles
  - (v) directional testing
  - (vi) analytical procedures.
- (b) Planning including:
  - (i) materiality
  - (ii) risk assessments.
- (c) Evidence including:
  - (i) documentation
  - (ii) related parties
  - (iii) management representations
  - (iv) using the work of others.

- (d) Evaluation and review including:
  - (i) opening balances and comparatives
  - (ii) other information
  - (iii) subsequent events
  - (iv) going concern.

### 4 Assignments

- (a) Audit of financial statements.
- (b) Group audits.
- (c) Audit-related services including:
  - (i) reviews
  - (ii) agreed-upon procedures
  - (iii) compilations.
- (d) Assurance services including:
  - (i) risk assessment
  - (ii) performance measurement
  - (iii) systems reliability
  - (iv) electronic commerce.
- (e) Prospective financial information.
- (f) Internal audit.
- (g) Outsourced finance and accounting functions.
- (h) Social and environmental audits.

### 5 Reporting

- (a) Auditors' reports.
- (b) Conclusions and reporting for agreed-upon procedures and assurance services.
- (c) Reports to management.

### 6 Current issues and developments

- (a) Professional ethics.
- (b) Corporate governance.
- (c) Fraud and litigation.
- (d) Environmental issues.
- (e) Information technology.

- (f) Multinational accountancy firms.
- (g) SMEs and audit exemption.

### EXCLUDED TOPICS

The following topics are specifically excluded from the syllabus:

- Stock Exchange Listing Requirements
- Financial Reporting Exposure Drafts
- effects on a company of insolvency law and of employment and social security law (e.g. wrongful trading and national insurance contributions).

### KEY AREAS OF THE SYLLABUS

The key topic areas are as follows:

- rules of professional conduct
- quality control practices and procedures
- audit strategy
- assignments
- auditors' reports
- current issues and developments.

### APPROACH TO EXAMINING THE SYLLABUS

The examination is a three hour paper constructed in two sections. Questions in both sections will be almost entirely discursive. However, candidates will be expected, for example, to be able to assess materiality and calculate relevant ratios where applicable.

Section A will be based on 'case study' type scenarios. That is not to say that they will be particularly long, rather that they will provide a setting within which a range of topics, issues and requirements can be

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addressed. Different types of question will be encountered in Section B and will tend to be more focussed on specific topics, for example 'auditors' reports', 'quality control' and topics of SASs which are not examinable in Paper 2.6 Audit and Internal Review. (This does not preclude these topics from featuring in Section A.) These questions will have less scenario than in Section A and one will be a discussion question.

	Number of marks
Section A: 3 compulsory questions	70
Section B: Choice of 2 from 3 questions (15 marks each)	30
	<hr/> 100

### ADDITIONAL INFORMATION

Candidates need to be aware that questions involving knowledge of new examinable regulations will not be set until at least six months after the last day of the month in which the regulation was issued.

The Study Guide provides more detailed guidance on the syllabus. Examinable documents are listed in the 'Exam Notes' section of *student accountant*.

### RELEVANT TEXTS

There are a number of sources from which you can obtain a series of materials written for the ACCA examinations. These are listed below:

#### Foulks Lynch – ACCA's official publisher

Contact number: +44 (0)20 8831 9990.

Website: [www.foulkslynch.com](http://www.foulkslynch.com)

#### Accountancy Tuition Centre (ATC) International

Contact number: +44 (0)141 880 6469.

Website: [www.ptc-global.com](http://www.ptc-global.com)

#### BPP

Contact number: +44 (0)20 8740 2211.

Website: [www.bpp.com](http://www.bpp.com)

#### The Financial Training Company

Contact number: +44 (0)174 785 4302.

Website: [www.financial-training.com](http://www.financial-training.com)

Wider reading is also desirable, especially regular study of relevant articles in ACCA's *student accountant*.

These articles and other communications from the Examiner can be downloaded via the Students section of [www.accaglobal.com](http://www.accaglobal.com).

### STUDY SESSIONS

#### 1 Rules of professional conduct I

Candidates should be able to interpret, apply and appraise specified statements of professional ethics which govern the auditor's conduct and are included in ACCA's 'Rules of Professional Conduct' and IFAC's 'Code of Ethics for Professional Accountants'.

- (a) Integrity, objectivity and independence
  - (i) revise the purpose of a professional ethical code from Paper 2.6
  - (ii) compare and contrast the Fundamental Principles of ACCA's 'Rules of Professional Conduct' with those of IFAC's 'Code of Ethics for Professional Accountants'
  - (iii) outline the contents of ACCA's and IFAC's codes of ethics
  - (iv) identify and explain common threats to independence and explain how the risks may be minimised or resolved
  - (v) discuss and evaluate the effectiveness of available safeguards
  - (vi) outline the practical implications for an audit practice in relation to quality control procedures
  - (vii) discuss the benefits of providing other services (including internal audit) to audit clients and whether the drawbacks (eg objectivity impairment) can be overcome

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- (viii) define “specialist valuations” and discuss how the objectivity of the audit may be threatened
- (ix) explain how and why an auditor should respond to a request to provide a second opinion
- (b) Professional duty of confidence
  - (i) explain the importance of the role of confidentiality to the auditor-client relationship
  - (ii) distinguish between disclosure and use of information
  - (iii) identify circumstances in which disclosure is permitted or required
  - (iv) discuss the factors which may justify disclosure in the “public interest”
  - (v) describe how a client’s information should be protected when the auditor also acts for a competitor company

### 2 Rules of professional conduct II

- (a) Changes in professional appointments
  - (i) discuss the reasons why entities change their auditors
  - (ii) explain the matters to be considered and the procedures which an audit firm/professional accountant should carry out before accepting new clients and new engagements
  - (iii) describe the procedures for agreeing the terms of an engagement
  - (iv) outline the procedures for the transfer of books, papers and

- information following a new appointment
- (b) Books, documents and papers
  - (i) explain the general principals governing the ownership of, and rights of access to, documents and papers
  - (ii) explain the legal right of lien and describe the circumstances in which it may be exercised
  - (iii) discuss the extent to which clients and third parties may have access to documents and papers
- (c) Corporate financial advice and conflicts of Interest
  - (i) outline the role of auditors in advising clients involved in take-over bids and share issues and explain how conflicts can arise
  - (ii) distinguish conflicts between members’ and clients’ interests from those between the interests of different clients
  - (iii) describe how conflicts may be avoided or managed with safeguards

### 3 Professional responsibility and liability

- (a) Fraud and error
  - (i) define and distinguish between the terms “error”, “irregularity”, “fraud” and “misstatement”
  - (ii) compare and contrast the respective responsibilities of management and auditors for fraud and error

- (iii) describe the matters to be considered and procedures to be carried out to investigate actual and/or potential misstatements
- (iv) 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
- (v) discuss the current and possible future role of auditors in preventing, detecting and reporting error and fraud
- (b) Professional liability
  - (i) identify the circumstances in which auditors may have legal liability
  - (ii) describe the factors to determine whether or not an auditor is negligent in given situations
  - (iii) explain the other criteria for legal liability to be recognised (including “due professional care” and “proximity”)
  - (iv) distinguish between liability to client and liability to third parties
  - (v) comment on precedents of case law
  - (vi) identify and evaluate the practicability and effectiveness of ways in which liability may be restricted
  - (vii) discuss how the audit and other opinions may be affected by limiting audit liability
  - (viii) discuss the advantages and disadvantages of audit liability

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- claims being settled out of court
- (c) Misconduct
- (i) explain and illustrate what is meant by professional misconduct
  - (ii) outline the penalties and sanctions which may be imposed by disciplinary bodies
- (d) Expectation gap
- (i) identify and discuss the factors which contribute to the expectation gap (e.g. responsibilities for fraud and error, litigation)
  - (ii) suggest ways in which the gap might be bridged
- (e) Professional indemnity insurance
- (i) explain the terms professional indemnity insurance (PII) and fidelity guarantee insurance (FGI)
  - (ii) discuss arguments for and against mandatory cover
- (f) Insider dealing
- (i) explain the term "insider dealing" and why it is damaging
  - (ii) relate the Fundamental Principles to insider dealing
  - (iii) suggest measures to reduce the exposure of partners and staff to the risks arising

### 4 Regulatory environment

Revision of regulatory framework from Paper 2.6

- (a) Corporate governance
- (i) explain the objective, relevance and importance of corporate

- governance
- (ii) discuss the relative merits and disadvantages of voluntary codes and legislation
  - (iii) discuss current issues in corporate governance
- (b) Code of best practice
- (i) outline the provisions of the Code of Best Practice (based on the Cadbury Report) that are most relevant to auditors
  - (ii) outline the requirements of the Combined Code (of the Committee on Corporate Governance) relating to directors' responsibilities (e.g. for risk management and internal control) and the reporting responsibilities of auditors
  - (iii) outline the content of a corporate governance statement
- (c) Audit committees
- (i) explain the structure and roles of audit committees and discuss their benefits and drawbacks
  - (ii) discuss the relative merits and disadvantages of regulation by a voluntary code of practice rather than law
  - (iii) discuss independence in respect of non-executive directors
- (d) Internal financial control effectiveness
- (i) outline the importance of internal control and risk management
  - (ii) compare the responsibilities of management and auditors (internal and external) for the design and operation of systems

- and controls, and the reliability of management information (financial and non-financial)
- (iii) describe the factors to be taken into account when assessing the need for an internal audit function
- (e) Laws and regulations in an audit of financial statements
- (i) compare and contrast the respective responsibilities of management and auditors concerning compliance with laws and regulations
  - (ii) describe the auditors' considerations of compliance and audit procedures when possible non-compliance is discovered

### 5 Practice management I

- (a) General
- (i) Describe the risks to which practices are exposed and the steps which can be taken to manage them
- (b) Quality control practices and procedures
- (i) outline the regulatory framework for ensuring quality services
  - (ii) outline the organisation of international accountancy practices
  - (iii) specify the objectives of quality control policies
  - (iv) identify the factors which affect the nature, timing and extent of an audit firm's quality control

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- policies and procedures
- (v) recommend policies and procedures which can be exercised internally at the level of the audit firm and on individual audits
- (vi) describe review procedures including second partner reviews
- (vii) discuss the matters particularly relevant to smaller firms relating to quality control

### 6 Practice management II

- (a) Advertising, publicity, obtaining professional work and fees
  - (i) explain the need for guidance in these areas
  - (ii) illustrate the circumstances in which advertising is acceptable
  - (iii) discuss the restrictions on practice descriptions, the use of the ACCA logo and the names of practising firms
  - (iv) discuss the extent to which fees may be referred to in promotional material
  - (v) outline the determinants of fee-setting and describe the bases on which fees and commissions may and may not be charged for services
  - (vi) discuss the problems involved in establishing and negotiating fees, etc
- (b) Tendering
  - (i) describe the matters to be considered when a firm is invited

- to submit a proposal or fee quote for an audit
- (ii) identify the information required for the proposal
- (iii) outline the content of an engagement proposal document (for both continuing and new clients)
- (iv) suggest the criteria which might be used to evaluate tenders received from audit firms
- (v) suggest reasons why audit fees may be lowered from the previous year's fees
- (vi) describe "lowballing" and discuss whether or not it impairs independence
- (c) Terms of engagement
  - (i) explain the key issues which underlie the agreement of the scope and terms of an audit engagement with a client

### 7 Audit process I

- (a) General (approaches to auditing)
  - (i) select and justify an appropriate approach to a given assignment
  - (ii) explain the circumstances in which a specified approach is not appropriate
- (b) Risk-based auditing
  - (i) describe the business risk approach to auditing and its relationship to the audit risk model
  - (ii) outline the reasons why it is adopted in preference to other methodologies

- (iii) describe the consequences of such a "top down" approach to evidence gathering procedures (e.g. tests of controls, analytical procedures and test of detail)
- (c) Systems audits
  - (i) describe the components of an effective system of internal controls
  - (ii) identify the factors which contribute to a strong control environment
  - (iii) revise control objectives, control procedures, walk-through tests and tests of control ("compliance tests")

### 8 Audit process II

- (a) Balance sheet approach
  - (i) explain the importance of the balance sheet as a primary statement
  - (ii) discuss why this approach may be more appropriate for the audit of small businesses than a business risk approach
  - (iii) discuss the limitations of this approach
- (b) Revenue, expenditure and other cycles
  - (i) illustrate how accounting transactions can be analysed into "cycles" which correspond to line items in the balance sheet and profit and loss account
  - (ii) identify cycles relevant to a given situation (e.g. the conversion cycle for a manufacturing enterprise)

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- (iii) describe the approach to each cycle
- (c) Directional testing
  - (i) explain the concept of directional testing as a methodology
  - (ii) describe how this approach helps to detect misstatements and determines the populations from which samples are drawn
  - (iii) illustrate the use of directional testing within cycles
  - (iv) discuss the advantages and limitations of this approach
- (d) Analytical procedures
  - (i) explain the nature and role of analytical procedures in the conduct of an assignment
  - (ii) recognise situations in which analytical procedures may be used extensively
  - (iii) describe the criteria for assessing the extent to which reliance can be placed on substantive analytical procedures

### 9 Planning

- (a) General
  - (i) identify and illustrate the matters to be considered in planning an assignment including:
  - (ii) logistics (e.g. staff and client management, multiple locations, deadlines)
  - (iii) use of IT in administration
  - (iv) time budgets
  - (v) assignment objectives and reports required

- (vi) preliminary materiality
- (vii) financial statement or other assertions
- (viii) components of audit risk
- (ix) audit strategy
- (b) Materiality
  - (i) define materiality and describe how it is applied in financial reporting and auditing
  - (ii) explain the criteria which determine whether or not a matter is material
  - (iii) discuss the use and limitations of prescriptive rules in making decisions about materiality
- (c) Risk assessments
  - (i) identify and distinguish between assignment (e.g. audit) and business risks
  - (ii) describe the factors which influence the assessment of a specified risk (e.g. inherent risk) for a given assignment
  - (iii) explain how and why the assessments of risks and materiality affect the nature, timing and extent of auditing procedures
  - (iv) critically appraise the audit risk model
  - (v) recognise and assess the implications of a specified computer system (e.g. network) on an assignment

### 10 & 11 Evidence

- (a) General
  - (i) critically appraise the appropriateness and sufficiency of different sources of audit evidence and the procedures by which evidence may be obtained including
    - management representations
    - the work of others (including internal auditors and specialists)
    - sampling techniques and selection methods
    - direct communication
    - audit automation tools
  - (ii) identify and illustrate suitable investigative methods (e.g. audit procedures such as enquiry and observation) to obtain sufficient evidence from identified sources
  - (iii) select and explain substantive analytical procedures appropriate to given financial and other data
  - (iv) identify and evaluate the audit evidence expected to be available to:
    - verify specific assets, liabilities, transactions and events; and
    - support financial statement assertions and accounting treatments (including fair values)
- (b) Documentation
  - (i) explain the reasons for preparing and keeping working papers and the importance of reviewing them
- (c) Related parties
  - (i) explain the specific audit problems and procedures concerning related parties and

## Audit and Assurance Services (GBR) (Continued)

- related party transactions
- (ii) recognise circumstances that may indicate the existence of unidentified related parties
- (d) Management representations
  - (i) illustrate the use of written management representations as the primary source of audit evidence and as complementary audit evidence
  - (ii) discuss the implications of contradictory evidence being discovered
- (e) Using the work of others
  - (i) explain when it is justifiable to place reliance on the work of a specialist (e.g. a surveyor employed by the audit client)
  - (ii) assess the appropriateness and sufficiency of the work of internal auditors

### 12 Evaluation and review I

- (a) General
  - (i) explain review procedures (including the use of analytical procedures and checklists)
  - (ii) evaluate findings quantitatively and qualitatively, e.g.
    - the results of audit tests and procedures
    - the effect of actual and potential misstatements
- (b) Opening balances and comparatives
  - (i) describe how the auditor's responsibilities for corresponding figures and comparative financial

- statements are discharged
- (ii) describe the further considerations and audit procedures relevant to initial engagements
- (c) Other information
  - (i) explain the auditor's responsibilities for "other information"
  - (ii) discuss the courses of action available to an auditor if a material inconsistency exists
- (d) Subsequent events
  - (i) specify the nature and timing of audit procedures designed to identify subsequent events that may require adjustment to, or disclosure in, the financial statements

### 13 Evaluation and review II

- (a) Going concern
  - (i) give examples of indicators that the going concern basis may be in doubt and recognise mitigating factors
  - (ii) evaluate the evidence which might be expected to be available and assess the appropriateness of the going concern basis in given situations
  - (iii) describe the disclosures in financial statements relating to going concern
  - (iv) understand the implications for the auditors' report where doubts about the going concern basis
    - have been resolved
    - remain unresolved

- (v) comment on the auditors responsibilities in respect of going concern statements

### 14 & 15 Audit of financial statements

- (a) Explain the objectives and principal characteristics of statutory audit and discuss its value (e.g. in assisting management to reduce risk and improve performance)
- (b) Distinguish between the respective responsibilities of auditors and management in relation to the audit of financial statements
- (c) Describe the limitations of assurance provided by a statutory audit
- (d) Evaluate the matters (e.g. materiality, risk, relevant accounting standards, audit evidence) relating to:
  - (i) stock
  - (ii) standard costing systems
  - (iii) cash flow statements
  - (iv) long-term contracts
  - (v) deferred taxation
  - (vi) segmental information
  - (vii) fair value
  - (viii) leases
  - (ix) revenue recognition
  - (x) government grants and assistance
  - (xi) borrowing costs
  - (xii) related party transactions
  - (xiii) investments
  - (xiv) earnings per share
  - (xv) discontinuing operations
  - (xvi) impairment

## Audit and Assurance Services (GBR) (Continued)

- (xvii) provisions, contingent liabilities and contingent assets
- (xviii) goodwill
- (xix) brand valuations
- (xx) research and development
- (xxi) other intangible assets
- (xxii) distributable profits

(This list is not exhaustive, in particular, the audit of transactions, balances and other events examined in Paper 2.6 is now assumed knowledge.)

### 16 Group audits

- (a) Identify the specific matters to be considered before accepting appointment as principal auditor to a group
- (b) Explain the organisation, planning, management and administration issues specific to group and joint audits
- (c) Identify the specific audit problems and describe audit procedures in relation to:
  - (i) the correct classification of investments
  - (ii) acquisitions and disposals
  - (iii) related party transactions
  - (iv) inter-company balances, transactions and profits
  - (v) goodwill on consolidation
  - (vi) enterprises in developing countries
- (d) Discuss support letters as audit evidence
- (e) Describe the matters to be considered and the procedures to be performed when a principal auditor uses the work of another auditor

- (f) Explain the implications for the auditors' report on the financial statements of an entity where the opinion on a component is qualified

### 17 "Audit-related" services

- (a) General
  - (i) distinguish between audit and audit-related services and the comparative levels of assurance provided by the auditor
- (b) Reviews
  - (i) distinguish between an attestation engagement and a direct reporting engagement
  - (ii) describe, for example:
    - a review of interim financial information
    - "due diligence" (when acquiring a company, business or other assets)
  - (iii) explain and illustrate the importance of enquiry and analytical procedures
  - (iv) discuss the effectiveness of the current "negative assurance" form of reporting
- (c) Agreed-upon procedures
  - (i) explain why these and compilation engagements do not (usually) meet the requirements for an assurance engagement
  - (ii) illustrate the form and content of a report of factual findings
- (d) Compilations
  - (i) describe the general principles and procedures relating to a

- compilation engagement (e.g. to prepare financial statements)
- (ii) illustrate the form and content of a compilation report

### 18 & 19 Assurance services

- (a) General
  - (i) explain the need for a range of assurance services and discuss to what extent these can be provided by auditors
  - (ii) explain the effects of assurance services being provided by the external auditor
  - (iii) describe how the level of assurance (high or moderate) provided by an engagement depends on the subject matter evaluated, the criteria used, the procedures applied and the quality and quantity of evidence obtained
  - (iv) describe the form and content of the professional accountant's report for an assurance engagement
  - (v) discuss the situations in which it would be appropriate to express a reservation or deny a conclusion
- (b) Risk assessment
  - (i) distinguish between management risk assessment and auditor risk assessment
  - (ii) explain the meaning of risk and the importance of risk thresholds

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- (iii) describe and illustrate different types of risk (e.g. financial, operational, information/IT, environmental)
- (iv) describe ways in which risks may be identified and analysed (e.g. in terms of their significance, the likelihood of occurrence and how they should be managed)
- (v) discuss the relative advantages and disadvantages of qualitative and quantitative risk assessment methods
- (vi) explain the different ways in which management can respond to risk (e.g. manage it, eliminate it, develop a recovery plan)
- (c) Performance measurement
  - (i) describe the benefits of providing assurance on business performance measures
  - (ii) discuss the relevance of traditional financial accounting performance measures and operational measures
  - (iii) describe how the reliability of performance information systems is assessed (including benchmarking)
  - (iv) describe the elements of a value for money audit (i.e. economy, efficiency and effectiveness) and give examples of its use
- (d) Systems reliability
  - (i) describe the need for information integrity and controls

- (ii) discuss the demand for reliable and more timely reporting and explain the benefits of providing assurance to management and external users
- (iii) describe the procedures for assessing internal control effectiveness (e.g. in real-time systems)
- (e) Electronic commerce
  - (i) describe and illustrate the ways in which organisations are using core technologies (e.g. EDI, E-mail, Internet, World Wide Web)
  - (ii) explain how e-commerce affects the business risk of an entity
  - (iii) describe the issues of privacy and security of information for transactions and communications
  - (iv) outline and illustrate the principles and criteria which underlie web assurance

### **20 Prospective financial information**

- (a) Define “prospective financial information” and distinguish between a “forecast” and a “projection”
- (b) Describe the matters to be considered before accepting an engagement to report on prospective financial information
- (c) Discuss the level of assurance which the auditor may provide and explain the other factors to be considered in determining the nature, timing and extent of examination procedures

- (d) Describe examination procedures to verify forecasts and projections relating to
  - (i) capital expenditure
  - (ii) profits
  - (iii) cash flows
- (e) discuss the basis on which auditors should form an opinion on prospective financial information

### **21 Internal audit**

- (a) Revise internal audit and
  - (i) its role in corporate governance
  - (ii) its relationships (e.g. with audit committees, external auditors)
  - (iii) the factors which determine the extent to which reliance can be placed on its work
- (b) Compare the objectives and principal characteristics of internal audit with other assurance engagements
- (c) Compare and contrast operational and compliance audits
- (d) Describe possible approaches to multi-site operations (e.g. cyclical compliance audits)
- (e) Discuss the provision of outsourced internal auditing services

### **22 Outsourced finance and accounting functions**

- (a) Explain the different approaches to “outsourcing” and compare with “insourcing”
- (b) Discuss the advantages and disadvantages of outsourcing finance and accounting functions including

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- (i) data (transaction) processing
- (ii) pensions
- (iii) information technology (IT)
- (iv) internal auditing
- (v) due diligence work
- (vi) taxes
- (c) Explain the impact of outsourced functions on the conduct of an audit

### 23 Social and environmental audits

- (a) Discuss the increasing importance of policies which govern the relationship of an organisation to its employees, society and the environment
- (b) Describe the difficulties in measuring social and environmental performance and give examples of targets and sustainability indicators
- (c) Explain the auditor's main considerations with respect to social and environmental matters and give examples of how they impact on companies and their financial statements (e.g. impairment of assets, provisions and contingent liabilities)
- (d) Discuss how control over social and environmental risks may be exercised by management and evaluated by the auditor
- (e) Describe substantive procedures to detect potential misstatements in respect of socio-environmental matters
- (f) Explain what action may be taken by the auditor in situations of non-

- compliance with relevant laws and regulations (e.g. environmental acts and health and safety regulations)
- (g) Discuss the form and content of an independent verification statement (e.g. on an environmental management system (EMS) and a report to society)

### 24 Auditors' reports

- (a) Explain and critically appraise the form and content of a standard unqualified auditors' report
- (b) Describe the factors to be taken into account when forming an audit opinion
- (c) Make judgements and form audit opinions which are consistent with the results of audit procedures relating to the sufficiency of audit evidence and/or compliance with accounting standards (including the going concern basis)
- (d) Discuss the implications for the auditors report on financial statements which report compliance with IFRSs
- (e) Critically evaluate a proposed audit opinion
- (f) Discuss "a true and fair view"
- (g) Describe and illustrate special purpose auditors' reports (e.g. on summarised financial statements)

### 25 Reports to management

- (a) Identify and report systems weaknesses and their potential effects and make appropriate recommendations to management (e.g. accounting procedures and financial controls)
- (b) Describe the criteria for evaluating the effectiveness of a management letter
- (c) Outline the content of a report to an audit committee
- (d) Explain the need for timely communication, clearance, feedback and follow up
- (e) Discuss communication methods

### 26 Current issues and developments I

- Candidates will be expected to demonstrate the ability to discuss the relative merits and the consequences of different standpoints taken in current debates and express opinions supported by reasoned arguments.
- (a) Professional ethics
    - (i) discuss the relative advantages of an ethical framework and a rulebook
    - (ii) comment on the adequacy of existing ways in which objectivity may be safeguarded and suggest additional measures to improve independence
    - (iii) suggest advantages and identify the problems and safeguards associated with, for example,

## Audit and Assurance Services (GBR) (Continued)

audit staff leaving to join an audit client

(b) Information technology

- (i) describe recent trends in IT and their current and potential impact on auditors (e.g. identify and discuss the audit implications of financial reporting on the Internet)
- (ii) explain how IT may be used to assist auditors and discuss the problems which may be encountered in automating the audit process

### 27 Current issues and developments II

- (a) Multinational accountancy firms
  - (i) describe the different ways in which the auditing profession and audit markets are regulated
  - (ii) discuss the advantages and disadvantages of partnership status, limited liability partnerships and incorporation of audit firms
  - (iii) describe current developments in the limitation of auditors' liability and the practical ways in which the risk of litigation and liability can be reduced
  - (iv) distinguish, for example, between 'global auditing firms' and second tier firms
  - (v) discuss the impact of globalisation on audit firms and their clients

- (vi) explain the advantages and problems of current trends (e.g. to merge, to divest consultancy services)

(b) SMEs and audit exemption

- (i) state the case for and against audit exemption for small businesses
- (ii) discuss how the potential problems associated with the audit of small enterprises may be overcome

### 28 Revision