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WHY P7?

ACCA	ACCA	ACCA	
P4	P5	P6	P7

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WHY CHOOSE P7 PAPER ?

1. P7 Advanced Audit and Assurance is designed to enable candidates to apply relevant knowledge and skills in evaluating and concluding on audit and assurance engagements.
2. If you have work experience in this area, or have ambitions to work in audit and assurance, then this exam could be a good choice for you.
3. You should also think about how comfortable you are with the fundamental areas of audit and assurance.

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Pass Rates

Dec -07	Jun -08	Dec -08	Jun -09	Dec -09	Jun -10	Dec -10	Jun -11	Dec -11	Jun -12	Dec -12	Jun -13	Dec -13	Jun -14
33	33	39	37	39	32	34	31	31	32	32	31	33	36

•A number of common issues arose in candidates' answers that contributed to the disappointing pass rate:

1. Writing too little for the marks available
2. Identifying issues but not explaining, evaluating or assessing the issues as required in sufficient detail.
3. Illegible handwriting and poor presentation.
4. Lack of knowledge of certain fundamental syllabus areas
5. Lack of basic accounting knowledge

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P7 examiner

- **LISA WEAVER** is the examiner for the P7 paper and has been associated with the paper since 2006 examinations
- She has defined specific competencies needed for P7 paper in her examiner approach article published in January 2007.

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Exposure drafts ,technical factsheets and alerts

- There are several **exposure drafts** and **technical factsheets** issued by ACCA/ IAASB on emerging issues , new standards in the phase of developments etc.

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TOPIC 1.2
MONEY LAUNDERING

EXAM

12/09 Grape Co.[10] / 12/07 Nate & Co[5]

KAPLAN CHAPTER REFERENCE :

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Money laundering

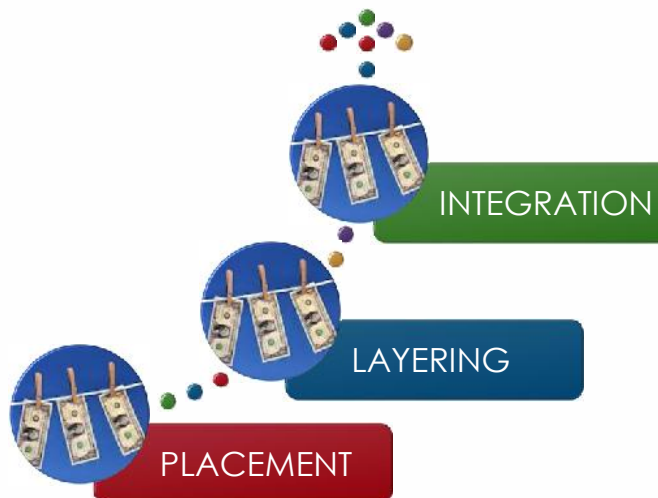
- Money laundering is a global phenomenon which affects all territories in varying degrees.
- Money laundering is defined as a process by which criminal attempt to conceal the true origin and ownership of the proceed of their criminal activities.
- If undertaken successfully, it allows criminals to maintain control over the proceeds of their criminal activities and ultimately to provide a legitimate cover for their sources of income.

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Money laundering process



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What is the auditor’s responsibility for fraud in an audit of financial statements ?

Auditor approach

Use of professional skepticism

Discussion among audit team members

Evaluation of accounting policies / disclosures

Reporting to TCWG

Audit report

Extract from Lisa Weaver Article, “Massaging the numbers” April 2009
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KAPLAN CHAPTER REFERENCE :

TOPIC 2.2
PROFESSIONAL LIABILITY

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What is Negligence ?

- Negligence is a common law concept under English law
- It seek to provide compensation to the person who has suffered loss due to another person wrongful neglect

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How to prove negligence?

To succeed an action for negligence an injured party must prove:



Duty of care enforceable by law existed



Duty of care was breached



Breached caused loss

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Auditor liability for negligence

```
graph LR; A[AUDITOR LIABILITY] --> B[SHAREHOLDERS]; A --> C[THIRD PARTIES]; B --> D[LIABILITY IN CONTRACT]; C --> E[LIABILITY IN TORT]
```

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ACCA Technical Factsheet 84

- **U/S 495 of CA2006**, the auditor of a company have a duty to report to the company's members whether in their opinion the financial statements have been properly prepared and give a true and fair view

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Incorporation

- Incorporation would protect the partners from personal bankruptcy. However the firm itself could be forced into liquidation. Further there could be adverse tax implication and the firm would need to publish accounts and be subject to audit

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Limited Liability Partnerships (LLPs)

- LLPs permit the partners not to be personally liable for liabilities of the firm. LLP is a combination of a partnership and a company (incorporating good features of both)

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TOPIC 3.1

ISQC-1 Quality control for firms that perform audit and review of historical financial information and other assurance services engagement

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Elements of a firm quality control system

- Leadership responsibilities for quality
- Ethics
- Acceptance and continuation of client relationship
- Human resources
- Engagement performance
- Monitoring

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ENGAGEMENT QUALITY CONTROL REVIEW

Types

Hot review

Compulsory for public interest entities

Conducted before signing of an audit report

Cold review

QCP Review one to two files each year for each partner

Closed engagement

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MONITORING

- The firm should on a regular basis monitor the **system of quality control** to ensure it is operating effectively.

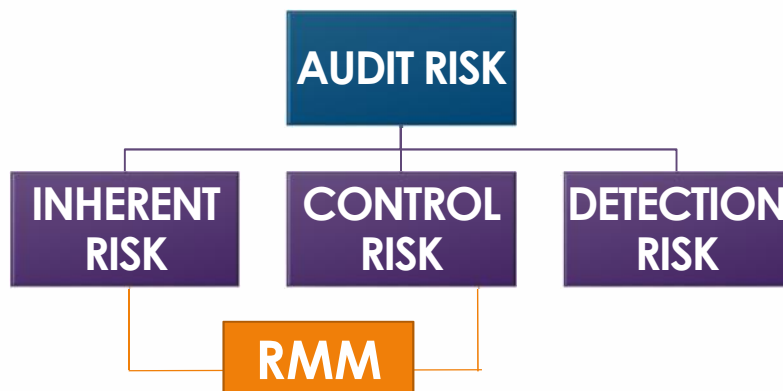
HOT REVIEW

COLD REVIEW

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F8: Audit risk approach



EXAM QUESTION: ISLAND CO – DECEMBER 2007

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Risk of material misstatement

- ISA 200 explains that the risk of material misstatement is the risk that the financial statements are materially misstated prior to audit, and is composed of inherent risk and control risk.
- Therefore, if a requirement relates to the risk of material misstatement, candidates are advised to focus on inherent and control risks arising from the question scenario.
- When assessing the risk of material misstatement it is crucial to discuss the specific impact of the risk on the financial statements.

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Business risk

- However, if a question requirement in the exam involves the specific assessment or evaluation of business risk only, candidates should focus their attention on the specific business risks identified from the scenario, and not develop their answer to include other types of risk, or discuss the impact of the risk on the financial statements.

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Categories of business risk

```
graph TD; A[Business risk] --> B[Internal risk]; A --> C[External risk]
```

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KAPLAN CHAPTER REFERENCE :

TOPIC 5.3

PLANNING AND MATERIALITY

EXAM

12/09 Papaya Co. [10]

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F8: Audit planning

Logistics

Communication methods

Using the work of others

Reporting requirements

Risk assessment

Time budgets

Matters at planning stage

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TOPIC 6.1

ISA 500: AUDIT EVIDENCE

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F8: Audit evidence [ISA-500]

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Audit evidence should be

- Sufficient
- Appropriate

Audit evidence is gathered through

- Test of controls
- Substantive procedures

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TOPIC 6.4

USING THE WORK OF OTHERS

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F8: Using the work of others

OVERVIEW

INTERNAL AUDITOR

EXPERT

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F8: ISA 610 :Using the work of an internal auditor

The criteria for preliminary assessment includes :

Organisational status

Scope of function

Technical competence

Due professional care

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TOPIC 6.6

ISA 620 USING THE WORK OF AN EXPERT

EXAM

12/08 Poppy Co. [20]

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F8:Types of experts

```
graph LR; Types[Types] --- Experts[Auditor's expert  
Management's expert]
```

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F8: ISA 620: Using the work of an expert

- The auditor is expected to exercise **due professional care** and **skill** and **to act** within **his own area of competence**.
- The auditor is not required to be a **technical expert** in the client's business.
- The auditor is required to **gather sufficient, appropriate audit evidence**.

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ISA 560/570: Subsequent events & going concern

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- There are two ISAs that are particularly relevant near the end of the audit.
- The first is ISA 560, *Subsequent Events*, which requires the auditor to perform audit procedures to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified

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Subsequent events & going concern

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- Secondly, ISA 570, *Going Concern* states that the auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast doubt on the entity's ability to continue as a going concern.
- Therefore, the auditor will conclude on going concern matters near the end of the audit having reviewed all evidence obtained and after reviewing the final version of the financial statements.
- Going concern is the subject of an examiner's article published in February 2010.

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ISA 580: Written representation

- Towards the end of the audit, the auditor must consider the matters to be included in management's written representation, according to ISA 580, *Written Representations*.
- This is a matter to be dealt with towards the conclusion of the audit because it is a requirement of ISA 580 that the date of the written representation shall be as near as possible to, but not after, the date of the auditor's report.
- Written representations are necessary audit evidence, and therefore the auditor's opinion cannot be expressed and the auditor's report cannot be dated before the date of the written representations.

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Written representation

- Significant subsequent events may come to light very late in the audit, and therefore the written representations should cover all of the subsequent events period, right up to the date at which the audit report is dated.

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Material inconsistencies

- **Material inconsistency** exists when other information contradicts with information in the audited financial statements.
- If the **amendment is necessary** in the financial statement and the management **refuse** to do so the auditor would modify the report with the inclusion of a qualified opinion
- If the **amendment is necessary** in the other information's the auditor would include an other matter paragraph describing the material inconsistency

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Material misstatement of facts

- **Material misstatement of fact** in other information exists when such information, not related to matters appearing in the audited financial statements, is incorrectly stated or presented.
- When the **auditor considers that there is an apparent misstatement of fact**, he should discuss this with management and identify reason thereof .
- If **management refuses to correct** the misstatement, the auditor should consider taking further action, such as notifying those charged with governance of the entity in writing or obtaining legal advice

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Going concern : Risk assessment stage (ISA 315)

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- Auditor should obtain understanding of business and the economic environment in which the audit client operates.
- The understanding could help auditor identify business risk which could effects company's profitability or could reduce company's cash inflows.
- The auditor also needs to consider risk which arise from factors for example :
 - Reduce demands for goods and services
 - Customer inability to pay
 - Inability to raise necessary finance

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Going concern: Performing audit procedures

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- Audit procedures should be performed on areas where going concern risk has been assessed.
- Further audit procedures are necessary in order to evaluate how the key management personnel have satisfied themselves that it is appropriate to adopt the going concern basis in preparing the financial statements

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KAPLAN CHAPTER REFERENCE :

No assurance engagement: Related services

Topic 9.5

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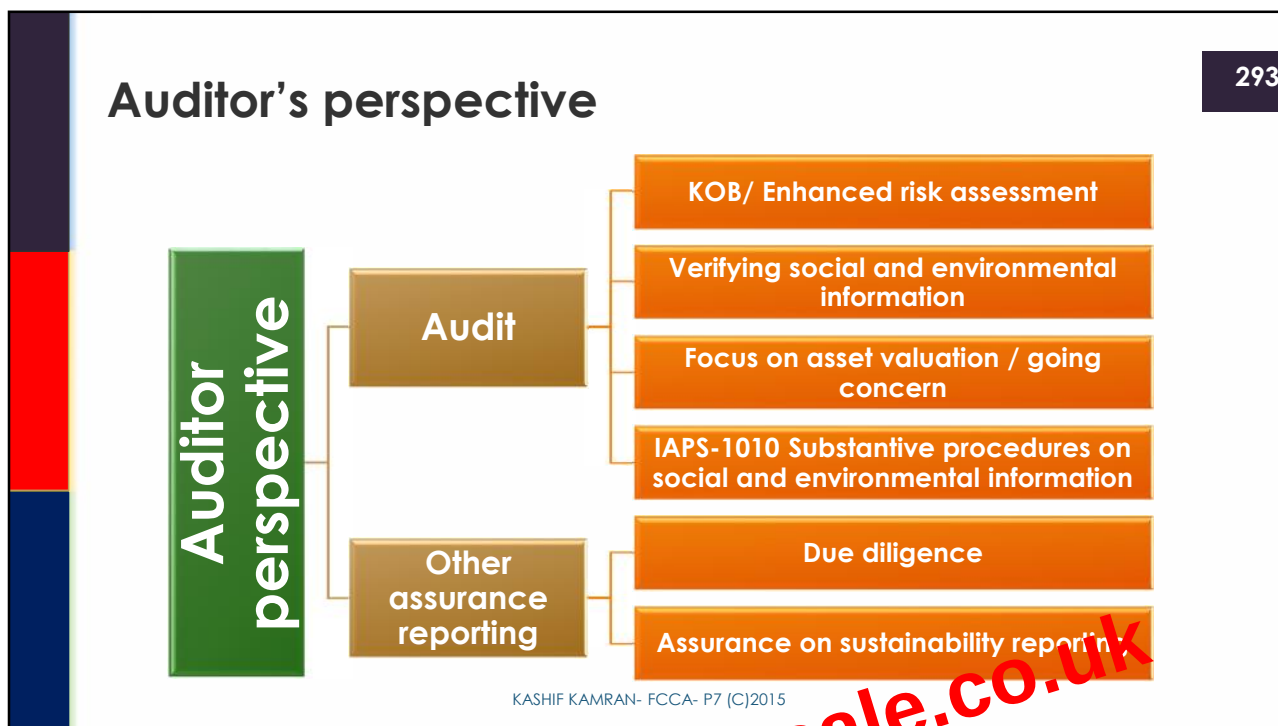
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No assurance engagements

- **ISRS-4400** Agreed upon procedures is an example of service provided by audit firms which **results in a report on factual finding but no assurance.**

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Auditor responsibility

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- **In planning the audit** the auditor should they obtain sufficient knowledge of the business to understand the laws and regulations that may have a significant effect on the financial statements (ISA 250 *Laws and regulations*).

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Impact of outsourcing on audit practice

```
graph TD; Impact[Impact] --- Planning[Planning]; Impact --- Scope[Scope]; Impact --- ControlRisk[Control risk];
```

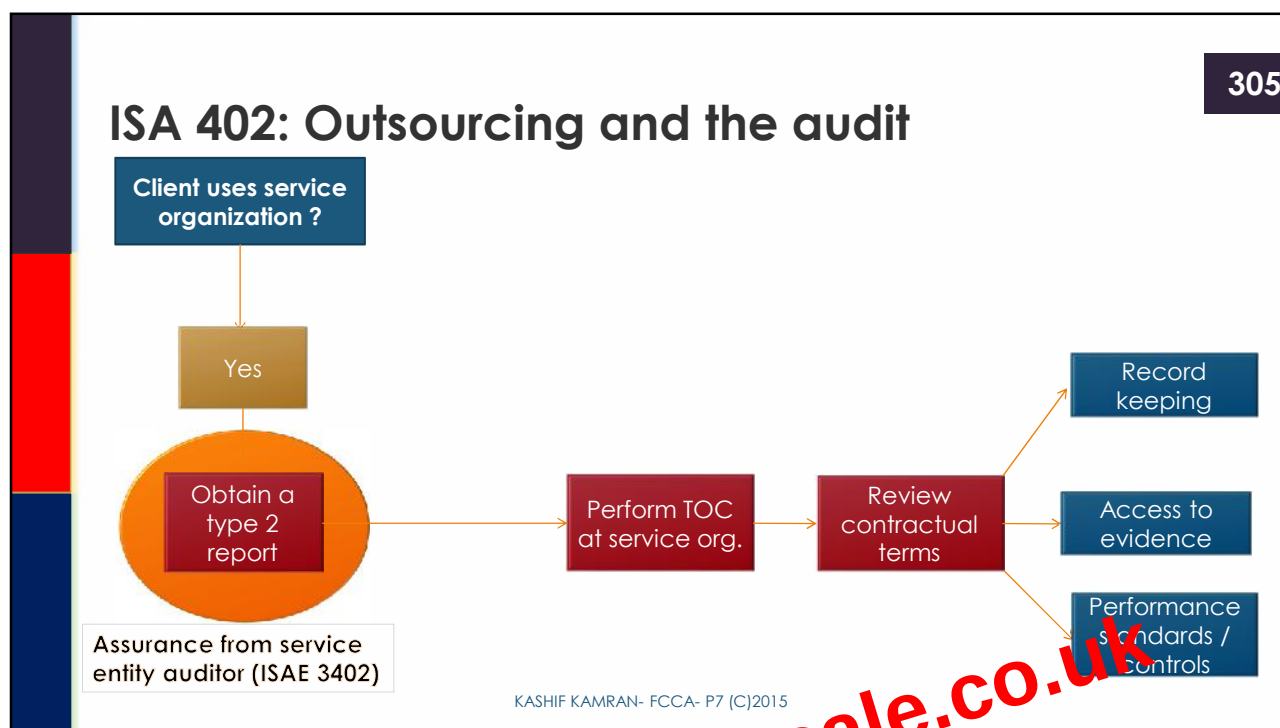
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Impact of outsourcing on audit practice

PROS	CONS
▪ Independence ▪ Competence ▪ Possible reliance on service organization's auditors	▪ Access

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What is a type 2 report ?

- A report on:
 - Description
 - Design
 - Operating effectiveness of internal controls at service organization
- It contains a report prepared by management of service organizations and a reasonable assurance of report by service organization auditor
- Before placing reliance on service auditor , the client auditor should ensure competence and independence of service entity auditor.

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Forming an audit opinion

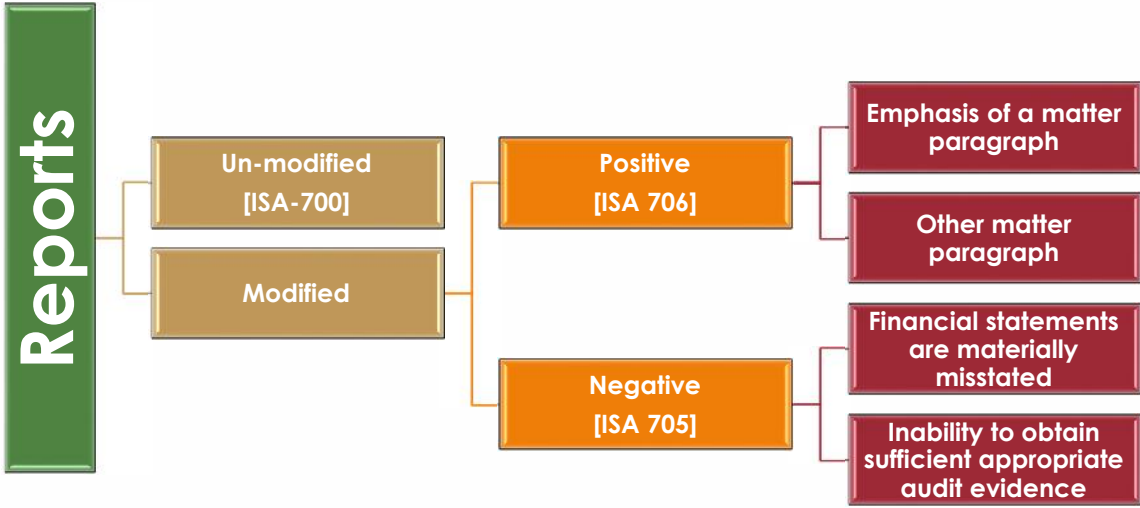
TOPIC 13.1

EXAM

12/10 WQs [15]

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```
graph LR; Reports[Reports] --> Unmodified[Un-modified  
[ISA-700]]; Reports --> Modified[Modified]; Modified --> Positive[Positive  
[ISA 706]]; Modified --> Negative[Negative  
[ISA 705]]; Positive --> Emphasis[Emphasis of a matter  
paragraph]; Positive --> Other[Other matter  
paragraph]; Negative --> Misstated[Financial statements  
are materially  
misstated]; Negative --> Evidence[Inability to obtain  
sufficient appropriate  
audit evidence]
```

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F8: Types of reports

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Question type -4

- Identify and explain the matters that should be considered and the actions that should be taken by the group audit engagement , in forming an opinion on the consolidated financial statements ?
- June 2011

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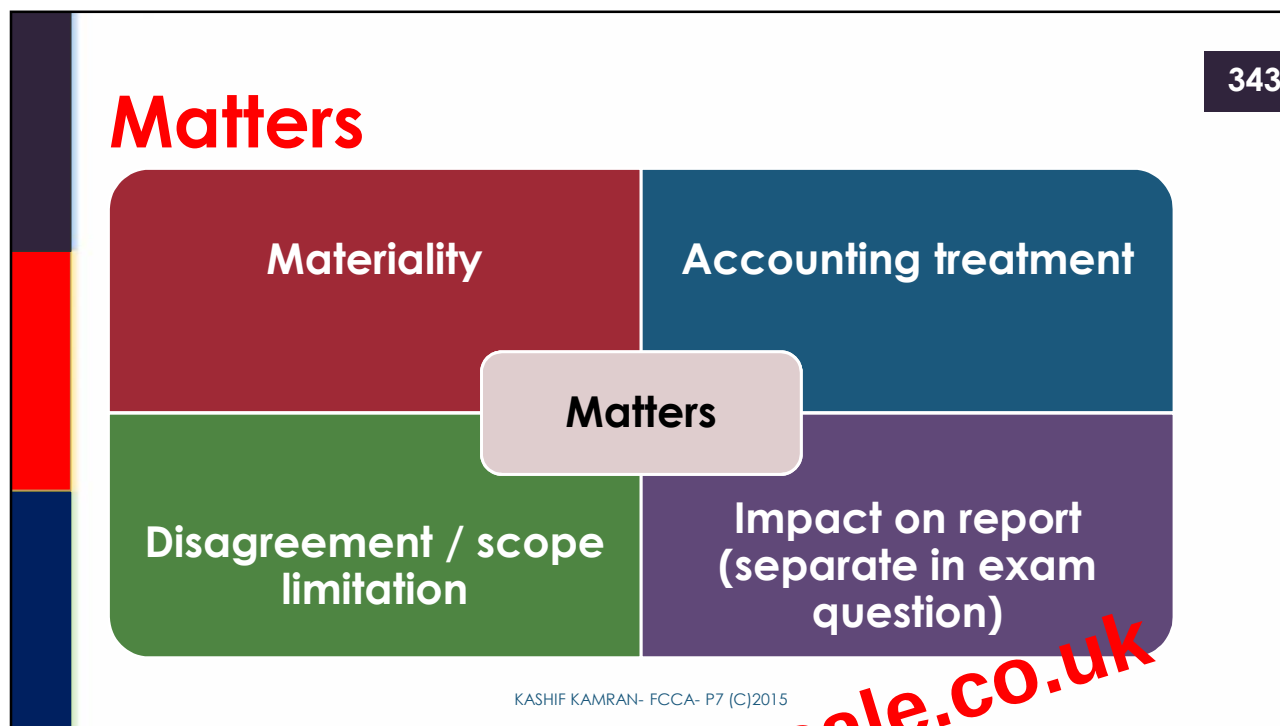
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Question type -5

- Comment on the financial reporting implication and advise the further audit procedure to be performed
- Recommend the actions to be taken by the auditor if the FS are not amended
- December 2009

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- ## Actions
1. Discuss with TCWG the reasons as to why they are not amending the financial statements
 2. Inform the management the implication of not amending the financial statements to audit report
 3. Draft the audit report with appropriate basis for opinion explaining the circumstances/ implication for financial statements and the opinion itself (relevant opinion is case)
 4. discuss the matter at AGM with shareholders explaining them properly the matters and how to lead to qualified opinion
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EXTENDED READING

- [NOVEMBER 2012]
- LISA WEAVER : A QUESTION OF ETHICS

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Overview

FUNDAMENTAL PRINCIPLES

THREATS TO OBJECTIVITY

CONFLICT OF INTEREST

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TOPIC 14.2

THREATS TO OBJECTIVITY

EXAM

12/08 Becker Co.[20]/ 06/08 Smith Co.[17]/ 06/10 Carter Co.[20]/ 06/09 Clifton [17]

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F8: Threats to objectivity

1 SELF INTEREST

2 SELF REVIEW

3 FAMILIARITY

4 INTIMIDATION

5 ADVOCACY

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Safeguards by profession

1. Educational requirement for entry into profession
2. CPD
3. Corporate governance
4. IESBA Code of ethics

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Safeguards within work environment

- Each audit firm should have visible ethical leadership and published code of conduct
- Strong internal controls
- Consultations with professional bodies for any uncertainties

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