

# Audit and Assurance (F8) December 2014 to June 2015

This syllabus and study guide is designed to help with planning study and to provide detailed information on what could be assessed in any examination session.

## THE STRUCTURE OF THE SYLLABUS AND STUDY GUIDE

### Relational diagram of paper with other papers

This diagram shows direct and indirect links between this paper and other papers preceding or following it. Some papers are directly underpinned by other papers such as Advanced Performance Management by Performance Management. These links are shown as solid line arrows. Other papers only have indirect relationships with each other such as links existing between the accounting and auditing papers. The links between these are shown as dotted line arrows. This diagram indicates where you are expected to have underpinning knowledge and where it would be useful to review previous learning before undertaking study.

### Overall aim of the syllabus

This explains briefly the overall objective of the paper and indicates in the broadest sense the capabilities to be developed within the paper.

### Main capabilities

This paper's aim is broken down into several main capabilities which divide the syllabus and study guide into discrete sections.

### Relational diagram of the main capabilities

This diagram illustrates the flows and links between the main capabilities (sections) of the syllabus and should be used as an aid to planning teaching and learning in a structured way.

### Syllabus rationale

This is a narrative explaining how the syllabus is structured and how the main capabilities are linked. The rationale also explains in further detail what the examination intends to assess and why.

### Detailed syllabus

This shows the breakdown of the main capabilities (sections) of the syllabus into subject areas. This is the blueprint for the detailed study guide.

### Approach to examining the syllabus

This section briefly explains the structure of the examination and how it is assessed.

### Study Guide

This is the main document that students, learning and content providers should use as the basis of their studies, instruction and materials. Examinations will be based on the detail of the study guide which comprehensively identifies what could be assessed in any examination session. The study guide is a precise reflection and breakdown of the syllabus. It is divided into sections based on the main capabilities identified in the syllabus. These sections are divided into subject areas which relate to the sub-capabilities included in the detailed syllabus. Subject areas are broken down into sub-headings which describe the detailed outcomes that could be assessed in examinations. These outcomes are described using verbs indicating what exams may require students to demonstrate, and the broad intellectual level at which these may need to be demonstrated (\*see intellectual levels below).

## INTELLECTUAL LEVELS

The syllabus is designed to progressively broaden and deepen the knowledge, skills and professional values demonstrated by the student on their way through the qualification.

The specific capabilities within the detailed syllabuses and study guides are assessed at one of three intellectual or cognitive levels:

Level 1: Knowledge and comprehension

Level 2: Application and analysis  
Level 3: Synthesis and evaluation

Very broadly, these intellectual levels relate to the three cognitive levels at which the Knowledge module, the Skills module and the Professional level are assessed.

Each subject area in the detailed study guide included in this document is given a 1, 2, or 3 superscript, denoting intellectual level, marked at the end of each relevant line. This gives an indication of the intellectual depth at which an area could be assessed within the examination. However, while level 1 broadly equates with the Knowledge module, level 2 equates to the Skills module and level 3 to the Professional level, some lower level skills can continue to be assessed as the student progresses through each module and level. This reflects that at each stage of study there will be a requirement to broaden, as well as deepen capabilities. It is also possible that occasionally some higher level capabilities may be assessed at lower levels.

## LEARNING HOURS AND EDUCATION RECOGNITION

The ACCA qualification does not prescribe or recommend any particular number of learning hours for examinations because study and learning patterns and styles vary greatly between people and organisations. This also recognises the wide diversity of personal, professional and educational circumstances in which ACCA students find themselves.

As a member of the International Federation of Accountants, ACCA seeks to enhance the education recognition of its qualification on both national and international education frameworks, and with educational authorities and partners globally. In doing so, ACCA aims to ensure that its qualifications are recognized and valued by governments, regulatory authorities and employers across all sectors. To this end, ACCA qualifications are currently recognized on the education frameworks in several countries. Please refer to your national education framework regulator for further information.

Each syllabus contains between 23 and 35 main subject area headings depending on the nature of

the subject and how these areas have been broken down.

## GUIDE TO EXAM STRUCTURE

The structure of examinations varies within and between modules and levels.

The Fundamentals level examinations contain 100% compulsory questions to encourage candidates to study across the breadth of each syllabus.

The Knowledge module is assessed by equivalent two-hour paper based and computer based examinations.

The Skills module examinations F5-F9 are all paper based three-hour papers containing a mix of objective and longer type questions. The *Corporate and Business Law* (F4) paper is a two-hour computer based objective test examination which is also available as a paper based version from the December 2014 examination session.

The Professional level papers are all three-hour paper based examinations, all containing two sections. Section A is compulsory, but there will be some choice offered in Section B.

For all three hour examination papers, ACCA has introduced 15 minutes reading and planning time.

This additional time is allowed at the beginning of each three-hour examination to allow candidates to read the questions and to begin planning their answers before they start writing in their answer books. This time should be used to ensure that all the information and exam requirements are properly read and understood.

During reading and planning time candidates may only annotate their question paper. They may not write anything in their answer booklets until told to do so by the invigilator.

The Essentials module papers all have a Section A containing a major case study question with all requirements totalling 50 marks relating to this case. Section B gives students a choice of two from three 25 mark questions.

Section A of both the P4 and P5 Options papers contain one 50 mark compulsory question, and Section B will offer a choice of two from three questions each worth 25 marks each.

Section A of each of the P6 and P7 Options papers contains 60 compulsory marks from two questions; question 1 attracting 35 marks, and question 2 attracting 25 marks. Section B of both these Options papers will offer a choice of two from three questions, with each question attracting 20 marks.

All Professional level exams contain four professional marks.

The pass mark for all ACCA Qualification examination papers is 50%.

## GUIDE TO EXAMINATION ASSESSMENT

ACCA reserves the right to examine anything contained within the study guide at any examination session. This includes knowledge, techniques, principles, theories, and concepts as specified.

For the financial accounting, audit and assurance, law and tax papers except where indicated otherwise, ACCA will publish *examinable documents* once a year to indicate exactly what regulations and legislation could potentially be assessed within identified examination sessions..

For paper based examinations regulation *issued* or legislation *passed* on or before 31<sup>st</sup> August annually, will be examinable from 1<sup>st</sup> September of the following year to 31<sup>st</sup> August<sup>†</sup> of the year after that. Please refer to the examinable documents for the paper (where relevant) for further information.

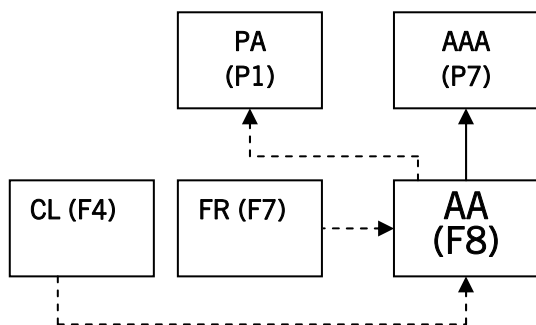
Regulation issued or legislation passed in accordance with the above dates may be examinable even if the *effective* date is in the future.

The term issued or passed relates to when regulation or legislation has been formally approved.

The term effective relates to when regulation or legislation must be applied to an entity transactions and business practices.

The study guide offers more detailed guidance on the depth and level at which the examinable documents will be examined. The study guide should therefore be read in conjunction with the examinable documents list.

# Syllabus



## AIM

To develop knowledge and understanding of the process of carrying out the assurance engagement and its application in the context of the professional regulatory framework.

## MAIN CAPABILITIES

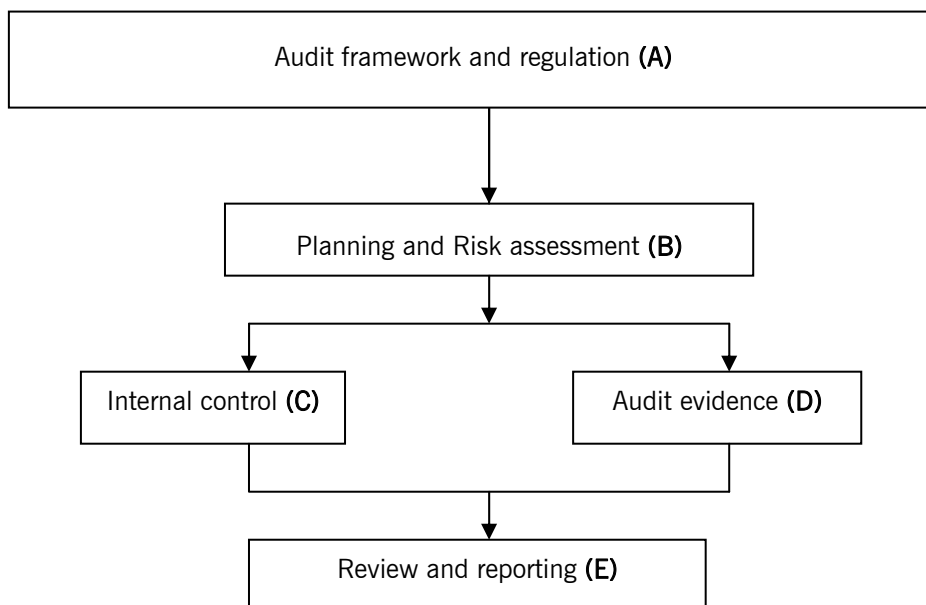
On successful completion of this paper, candidates should be able to:

**A** Explain the concept of audit and assurance and the functions of audit, corporate governance,

including ethics and professional conduct, describing the scope and distinguishing between the functions of internal and external audit

- B** Demonstrate how the auditor obtains and accepts audit engagements obtains an understanding of the entity and its environment, assesses the risk of material misstatement (whether arising from fraud or other irregularities) and plans an audit of financial statements
- C** Describe and evaluate internal controls, techniques and audit tests, including IT systems to identify and communicate control risks and their potential consequences, making appropriate recommendations
- D** Identify and describe the work and evidence obtained by the auditor and others required to meet the objectives of audit engagements and the application of the International Standards on Auditing
- E** Explain how consideration of subsequent events and the going concern principle can inform the conclusions from audit work and are reflected in different types of audit report, written representations and the final review and report.

## RELATIONAL DIAGRAM OF MAIN CAPABILITIES



## **RATIONALE**

The Audit and Assurance syllabus is essentially divided into five areas. The syllabus starts with the nature, purpose and scope of assurance engagements both internal and external, including the statutory audit, its regulatory environment, and introduces governance and professional ethics relating to audit and assurance. It then leads into planning and risk assessment audit. The syllabus then covers a range of areas relating to an audit of financial statements including the scope of internal control. These include, evaluating internal controls, audit evidence, and a review of the financial statements. The final section then deals with reporting, including statutory audit reports, management reports, and internal audit reports.

## DETAILED SYLLABUS

### A. Audit framework and regulation

1. The concept of audit and other assurance engagements
2. External audits
3. Corporate governance
4. Professional ethics and ACCA's Code of Ethics and Conduct
5. Internal audit and governance and the differences between external audit and internal audit
6. The scope of the internal audit function, outsourcing and internal audit assignments

### B. Planning and risk assessment

1. Obtaining and accepting audit engagements
2. Objective and general principles
3. Assessing audit risks
4. Understanding the entity and its environment
5. Fraud, laws and regulations
6. Audit planning and documentation

### C. Internal control

1. Internal control systems
2. The use and evaluation of internal control systems by auditors
3. Tests of control
4. Communication on internal control

### D. Audit evidence

1. Financial statement assertions and audit evidence
2. Audit procedures

3. Audit sampling and other means of testing
4. The audit of specific items
5. Computer-assisted audit techniques
6. The work of others
7. Not-for-profit organisations

### E. Review and reporting

1. Subsequent events
2. Going concern
3. Written representations
4. Audit finalisation and the final review
5. Audit reports

## APPROACH TO EXAMINING THE SYLLABUS

The syllabus is assessed by a three-hour paper-based examination, All questions are compulsory.

Section A of the exam comprises 8 two mark questions and four one mark multiple choice questions giving a total of 20 marks for that section.

Section B of the exam comprises four 10 mark questions and two longer 20 mark questions. The 20 mark questions will predominantly examine one or more aspects of audit and assurance from planning and risk assessment, internal control or audit evidence, although topics from other syllabus areas may also be included

# Study Guide

## A AUDIT FRAMEWORK AND REGULATION

### 1. The concept of audit and other assurance engagements

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

### 2. External audits

- a) Describe the regulatory environment within which external audits take place.<sup>[1]</sup>
- b) Discuss the reasons and mechanisms for the regulation of auditors.<sup>[1]</sup>
- c) Explain the statutory regulations governing the appointment, rights, removal and resignation of auditors.<sup>[1]</sup>
- d) Explain the regulations governing the rights and duties of auditors<sup>[1]</sup>
- e) Describe the limitations of external audits.<sup>[1]</sup>
- f) Explain the development and status of International Standards on Auditing (ISAs).<sup>[1]</sup>
- g) Explain the relationship between International Standards on Auditing and national standards.<sup>[1]</sup>

## 3. Corporate governance

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

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

- a. Define and apply the fundamental principles of professional ethics of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.<sup>[2]</sup>
- b) Define and apply the conceptual framework, including the threats to the fundamental principles of self-interest, self-review, advocacy, familiarity, and intimidation.<sup>[2]</sup>
- c) Discuss the safeguards to offset the threats to the fundamental principles.<sup>[2]</sup>
- d) Describe the auditor's responsibility with regard to auditor independence, conflicts of interest and confidentiality.<sup>[1]</sup>

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

- a) Discuss the factors to be taken into account when assessing the need for internal audit.<sup>[2]</sup>

b) Discuss the elements of best practice in the structure and operations of internal audit with reference to appropriate international codes of corporate governance.<sup>[2]</sup>

c) Compare and contrast the role of external and internal audit.<sup>[2]</sup>

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

a) Discuss the scope of internal audit and the limitations of the internal audit function.<sup>[2]</sup>

b) Explain outsourcing.<sup>[1]</sup>

c) Explain the advantages and disadvantages of outsourcing the internal audit function.<sup>[1]</sup>

d) Discuss the nature and purpose of internal audit assignments including value for money, IT, financial, regulatory compliance, fraud investigations and customer experience.<sup>[2]</sup>

e) Discuss the nature and purpose of operational internal audit assignments<sup>[2]</sup>

f) Describe the format and content of audit review reports and make appropriate recommendations to management and those charged with governance<sup>[2]</sup>

## **B PLANNING AND RISK ASSESSMENT**

### **1. Obtaining and accepting audit engagements**

a) Discuss the requirements of professional ethics in relation to the acceptance of new audit engagements<sup>[2]</sup>

b) Explain the preconditions for an audit<sup>[2]</sup>

c) Explain the process by which an auditor obtains an audit engagement<sup>[2]</sup>

d) Justify the importance of engagement letters and their contents<sup>[1]</sup>

### **2. Objective and general principles**

a) Identify the overall objectives of the auditor and the need to conduct an audit in accordance with ISAs.<sup>[2]</sup>

b) Explain the need to plan and perform audits with an attitude of professional scepticism, and to exercise professional judgment.<sup>[2]</sup>

### **3. Assessing audit risks**

a) Explain the components of audit risk.<sup>[1]</sup>

b) Explain the audit risks in the financial statements and explain the auditor's response to each risk.<sup>[2]</sup>

c) Define and explain the concepts of materiality and performance materiality.<sup>[2]</sup>

d) Explain and calculate materiality levels from financial information.<sup>[2]</sup>

### **4. Understanding the entity and its environment**

a) Explain how auditors obtain an initial understanding of the entity and its environment.<sup>[2]</sup>

b) Describe and explain the nature, and purpose of, analytical procedures in planning.<sup>[2]</sup>

c) Compute and interpret key ratios used in analytical procedures.<sup>[2]</sup>

### **5. Fraud, laws and regulations**

a) Discuss the effect of fraud and misstatements on the audit strategy and extent of audit work.<sup>[2]</sup>

b) Discuss the responsibilities of internal and external auditors for the prevention and detection of fraud and error.<sup>[2]</sup>

c) Explain the auditor's responsibility to consider laws and regulations.<sup>[2]</sup>



## **6. Audit planning and documentation**

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

## **C INTERNAL CONTROL**

### **1. Internal control systems**

- a) Explain why an auditor needs to obtain an understanding of internal control relevant to the audit.<sup>[1]</sup>
- b) Describe and explain the five components of internal control<sup>[2]</sup>
  - i) the control environment
  - ii) the entity's risk assessment process,
  - iii) the information system, including the related business processes, relevant to financial reporting, and communication
  - iv) control activities relevant to the audit
  - v) monitoring of controls

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

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

### **3. Tests of control**

- a) Describe computer systems controls including general IT controls and application controls<sup>[2]</sup>
- b) Describe control objectives, control procedures, activities and tests of control in relation to:
  - i) The sales system;
  - ii) The purchases system
  - iii) The payroll system
  - iv) The inventory system
  - v) The cash system
  - vi) Non-current assets

### **4. Communication on internal control**

- a) Discuss and provide examples of how the reporting of significant deficiencies in internal control and recommendations to overcome those significant deficiencies are provided to management.<sup>[2]</sup>

## **D AUDIT EVIDENCE**

### **1. Financial statement assertions and audit evidence**

- a) Explain the assertions contained in the financial statements about:<sup>[2]</sup>
  - (i) Classes of transactions and events;
  - (ii) Account balances at the period end;
  - (iii) Presentation and disclosure
- b) Describe audit procedures to obtain audit evidence, including inspection, observation, external confirmation, recalculation, re-

performance, analytical procedures and enquiry<sup>[2]</sup>

c) Discuss the quality and quantity of audit evidence<sup>[2]</sup>

d) Discuss the relevance and reliability of audit evidence<sup>[2]</sup>

## 2. Audit procedures

a) Discuss substantive procedures for obtaining audit evidence<sup>[2]</sup>

b) Discuss and provide examples of how analytical procedures are used as substantive procedures<sup>[2]</sup>

c) Discuss the problems associated with the audit and review of accounting estimates.<sup>[2]</sup>

d) Describe why smaller entities may have different control environments and describe the types of evidence likely to be available in smaller entities.<sup>[1]</sup>

e) Discuss the difference between tests of control and substantive procedures<sup>[2]</sup>

## 3. Audit sampling and other means of testing

a) Define audit sampling and explain the need for sampling.<sup>[1]</sup>

b) Identify and discuss the differences between statistical and non-statistical sampling.<sup>[2]</sup>

c) Discuss and provide relevant examples of, the application of the basic principles of statistical sampling and other selective testing procedures.<sup>[2]</sup>

d) Discuss the results of statistical sampling, including consideration of whether additional testing is required.<sup>[2]</sup>

## 4. The audit of specific items

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

Explain the audit objectives and the audit procedures in relation to:

a) Receivables:<sup>[2]</sup>

- i) direct confirmation of accounts receivable
- ii) other evidence in relation to receivables and prepayments, and
- iii) completeness and occurrence of sale..

b) Inventory:<sup>[2]</sup>

- i) inventory counting procedures in relation to year-end and continuous inventory systems
- ii) cut-off
- iii) auditor's attendance at inventory counting
- iv) direct confirmation of inventory held by third parties,
- v) valuation
- vi) other evidence in relation to inventory.

c) Payables and accruals:<sup>[2]</sup>

- i) supplier statement reconciliations and direct confirmation of accounts payable,
- ii) obtain evidence in relation to payables and accruals, and
- iii) purchases and other expenses.

d) Bank and cash:<sup>[2]</sup>

- i) bank confirmation reports used in obtaining evidence in relation to bank and cash
- ii) other evidence in relation to bank and
- iii) other evidence in relation to cash.

e) Tangible and intangible non-current assets<sup>[2]</sup>

- i) evidence in relation to non-current assets and
- ii) depreciation
- iii) profit/loss on disposal

f) Non-current liabilities, provisions and contingencies<sup>[2]</sup>

- i) evidence in relation to non-current liabilities
- ii) provisions and contingencies

g) Share capital, reserves and directors' emoluments:<sup>[2]</sup>

- i) evidence in relation to share capital, reserves and directors' emoluments

## 5. Computer-assisted audit techniques

- a) Explain the use of computer-assisted audit techniques in the context of an audit.<sup>[1]</sup>
- b) Discuss and provide relevant examples of the use of test data and audit software.<sup>[2]</sup>

## 6. The work of others

- a) Discuss why auditors rely on the work of others.<sup>[2]</sup>
- b) Discuss the extent to which external auditors are able to rely on the work of experts, including the work of internal audit.<sup>[2]</sup>
- c) Explain the audit considerations relating to entities using service organisations.<sup>[2]</sup>
- d) Explain the extent to which reference to the work of others can be made in audit reports.<sup>[1]</sup>

## 7. Not-for-profit organisations

- a) Apply audit techniques to not-for-profit organisations.<sup>[2]</sup>

## E REVIEW AND REPORTING

### 1. Subsequent events

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

### 2. Going concern

- a) Define and discuss the significance of the concept of going concern.<sup>[2]</sup>
- b) Explain the importance of and the need for going concern reviews.<sup>[2]</sup>
- c) Explain the respective responsibilities of auditors and management regarding going concern.<sup>[1]</sup>

- d) Identify and explain potential indicators that an entity is not a going concern.<sup>[2]</sup>
- e) Discuss the procedures to be applied in performing going concern reviews.<sup>[2]</sup>
- f) Discuss the disclosure requirements in relation to going concern issues.<sup>[2]</sup>
- g) Discuss the reporting implications of the findings of going concern reviews.<sup>[2]</sup>

### 3. Written representations

- a) Explain the purpose of and procedure for obtaining written representations.<sup>[2]</sup>
- b) Discuss the quality and reliability of written representations as audit evidence.<sup>[2]</sup>
- c) Discuss the circumstances where written representations are necessary and the matters on which representations are commonly obtained.<sup>[2]</sup>

### 4. Audit finalisation and the final review

- a) Discuss the importance of the overall review of evidence obtained.<sup>[2]</sup>
- b) Describe procedures an auditor should perform in conducting their overall review of financial statements.<sup>[2]</sup>
- c) Explain the significance of uncorrected misstatements.<sup>[1]</sup>
- d) Evaluate the effect of dealing with uncorrected misstatements.<sup>[2]</sup>

### 5. Audit reports

- a) Identify and describe the basic elements of the auditor's report.<sup>[1]</sup>
- b) Explain unmodified audit opinions in the auditor's report.<sup>[2]</sup>
- c) Explain modified audit opinions in the audit report.<sup>[2]</sup>
- d) Describe the format and content of emphasis of matter and other matter paragraphs.<sup>[2]</sup>

## SUMMARY OF CHANGES TO F8

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of stakeholders such as employers, students, regulatory and advisory bodies and learning providers.

From December 2014, the main changes to the examination are structural. From this session the exam will be structured in two sections. Section A will contain 8 two mark and four one mark objective test questions assessing the breadth of the syllabus.

Section B will contain four 10 mark questions and two 20 mark questions.

The other changes relate to the syllabus itself. The syllabus has been slightly re-structured and simplified to reduce overlap and duplication. There are now five sections to the syllabus and some outcomes have been re-assigned or consolidated with others within these five sections as appropriate.

The main areas that have been changed in the syllabus are shown in the Table 1 below:

**Table 1 – Amendments to F8**

Section and subject area	Syllabus content
A1e) Explain reporting as a means of communication to different stakeholders. <sup>[1]</sup>	Deleted
A3i) Compare the responsibilities of management and auditors for the design and operation of systems and controls. <sup>[2]</sup>	Deleted
B2a) Identify the overall objectives of the auditor and the need to conduct an audit in accordance with ISAs. <sup>[2]</sup>	Old C1a) and c) combined
E2g) Explain the auditor's responsibilities and describe procedures to be applied in relation to opening balances and comparative information. <sup>[2]</sup>	Deleted
E6c) Discuss the extent to which auditors are able to rely on the work of internal audit. <sup>[2]</sup>	Combined with D6b
E7b) Explain how the audit of not-for-profit organisations differs from the audit of for-profit organisations	Deleted