

**AA**

# The Performance, Feedback & Problems

Geoffrey Liu 29th Mar. 2022



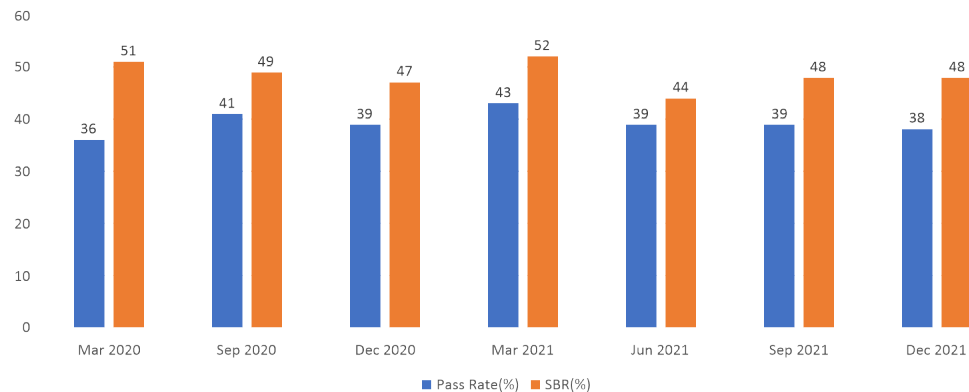
# Agenda

- The global trend & performance
- The examiner's report analysis
- The feedback & suggestion



# LO1: The global trend & performance

# The global exam pass rates



The pass rates of AA(2020-2021)

# The global exam pass rates

The comparison of pass rates(2020-2021)

Mar 2020	Sep 2020	Dec 2020	Mar 2021	Jun 2021	Sep 2021	Dec 2021
PM(35)	PM(39)	AA(39)	AA(43)	AA(39)	PM(37)	AA(38)
AA(36)	AA(41)	PM(40)	PM(44)	PM(41)	AA(39)	PM(43)
FR(44)	FR(50)	FM(45)	FM(46)	FR(51)	FR(48)	FR(50)
FM(44)	FM(52)	FR(48)	FR(47)	FM(52)	FM(52)	FM(50)

# LO2: The examiner's report analysis

# The examiner's report analysis

The Audit and Assurance exam is offered in computer-based (CBE) format.

Section	Question type	Syllabus coverage	Total marks
A	OT Cases 3 cases, each with 5 x 2 mark OT questions		30
B	Constructed response questions 1 x 30 marks 2 x 20 marks	Each will <b>predominantly</b> feature one or more aspects of the following syllabus sections: <ul style="list-style-type: none"><li>• (B) Planning and risk assessment</li><li>• (C) Internal control</li><li>• (D) Audit evidence</li></ul>	70

# The examiner's report analysis

- Section A consists of three OT cases each comprising five OT questions for a total of 30 marks, which cover a broad range of syllabus topics.
- The syllabus includes audit evidence learning outcomes relating to a wide range of specific items, any of which may be examined.
- Questions may test specific details of examinable documents, therefore candidates must ensure that they have studied these in sufficient depth.
- Candidates are reminded that there will be a mix of application and knowledge questions in Section A.



# The examiner's report analysis

- Q1 uses a very common style of requirement, namely to 'calculate ratio for both year and describe audit risks and explain the auditor's response to each risk'. Here the question called for SEVEN risks and responses.
- The examiner advises that future candidates must take note that audit risk is and will continue to be an important element of the syllabus and must be understood. Candidates must also ensure that they include adequate question practice as part of their revision of this key topic.

# The examiner's report analysis

Describe EIGHT risks and explain the auditor's response to each risk in planning the audit of Peach Co.

- Marks are awarded for identification of audit risks ( $\frac{1}{2}$  mark each), explanation of audit risks ( $\frac{1}{2}$  mark each) and an appropriate auditor's response to each risk (1 mark each)-read the requirement carefully.
- The scenario will typically contain more than the number of risks required, so it is important that candidates plan their time carefully and only attempt to list the required number of points. candidates should pick the points they are best able to develop.

# The examiner's report analysis

The company has a human resources (HR) department, responsible for setting up all new joiners. Pre-printed forms are completed by HR for all new employees and, once verified, a copy is sent to the payroll department for the employee to be set up for payment. This form includes the staff member's employee number and payroll cannot set up new joiners without this information. To encourage staff to attend work on time for all shifts, Raspberry Co introduced a discretionary bonus, paid every three months, for production staff. The production supervisors determine the amounts to be paid and notify the payroll department. This quarterly bonus is entered into the system by a clerk and each entry is checked by a senior clerk for input errors prior to processing. The senior clerk signs the bonus listing as evidence of undertaking this review.

# The examiner's report analysis

- Students are advised to write their answers in full and avoid phrases.

Key control	Test of control
separate HR -	
pre-printed forms -	
check of quarterly bonus – evidenced -	

# The examiner's report analysis

- Try to apply the financial accounting knowledge rather than recite it.
- **The scenario:** Inventory cost is made up of the purchase price of raw materials and costs of conversion including labor, production and general overheads.

**The answer:** Inventory should be valued at the lower of cost & NRV.

# The examiner's report analysis

- To explain an audit risk it is necessary to state the specific area of the financial statements impacted, the relevant financial statement assertion that is affected (e.g. completeness/cut-off/valuation, etc) or whether amounts could be over/under/misstated or the effect on inherent/ control/detection risk.

Peach Co has been developing a new production process which will help to reduce sugar in its drinks by 50%. Development commenced on 1 November 20X4 and the total amount capitalised was \$0.8m. On 1 May 20X5, the food safety authority approved the process and production of the new reduced-sugar soft drinks commenced.

# The examiner's report analysis

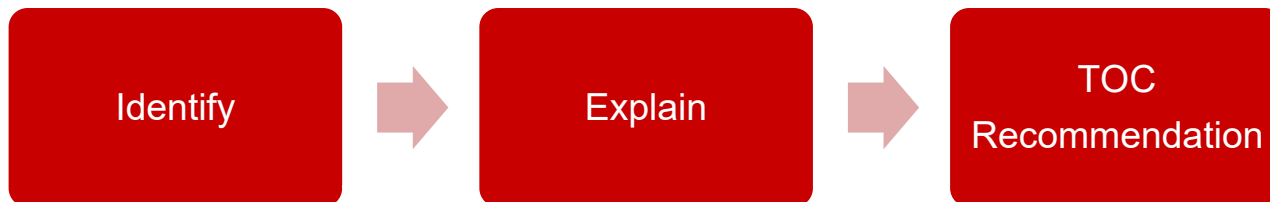
- Auditor's response is the approach to address the identified risk

In order to fund the development of the new production process and the purchase of new machinery, Peach Co obtaining an interest-bearing bank loan of \$1.2m on 1 March 20X5 repayable over the next three years in arrears. In order to secure the bank loan, Peach Co agreed to maintain a minimum net profit margin and meet specific sales targets.

- “discuss with management” is insufficient

# The examiner's report analysis

- Q2 is testing the ability of students to identify and analysis the strength and weakness of the internal control system of the client, meanwhile in accordance with the strength of the internal control system, assuming the control activities have been operating effectively, students should state how to use TEST OF CONTROL to obtain sufficiency and appropriate audit evidence.





# The examiner's report analysis

- **Identify**
- Candidates appear to be able to pick the relevant fact from the scenario but often fail to describe it in terms of a deficiency.
- Candidates must also be careful not to identify irrelevant deficiencies.

# The examiner's report analysis

- Explain
- Candidates are required to explain the implication to the business to be awarded credit.
- The explanation should sufficiently detailed.

# The examiner's report analysis

- TOC
- The purpose of TOC is to verify whether the internal control of the enterprise exists and the implementation of effective, students are required to be able to write in detail what kind of action the auditor took & the purpose of the auditor to do so.

Auditor could inspect reconciliation statement.

Auditor could inspect reconciliation **statement to confirm the reconciliation has been carried out every month.**

- The choice of TOC

# The examiner's report analysis

Q3 Audit evidence is the area of the syllabus that requires a description of the work and evidence obtained by the auditor to meet the objectives of audit engagements and the application of International Standards on Auditing.

A key requirement of this part of the syllabus is an ability to describe relevant audit procedures for a particular class of transactions or account balances. Generally, questions in this syllabus area will cover a variety of areas across both the statement of profit or loss and statement of financial position.

# The examiner's report analysis

- When generating substantive procedures, it is important to ensure the tests have sufficient detail and are clear.

Obtain management representation about policy.

Discuss why the purchase ledger was kept open for an extra week. This seems like a control weakness.



# LO3: The feedback & suggestion

# What are the specific challenges?

- For many students the subject matter is “dry” and unexciting
- Students “in audit” don’t take it seriously/expect they will be able to “wing it”
- Students can’t/won’t attempt constructed response (“long”) questions – either in class or for homework – but only “audit” the answers
  
- Students without the necessary assumed knowledge (of FA) slow down the course
- Students with no practical audit experience expect/try to learn it “by rote”
- Students can’t convey the “bigger picture” – what is an audit and how does it work?

# Underpinning knowledge

What financial accounting/reporting knowledge does the AA syllabus assume?

- Only **FA** – **not** the topics introduced in FR
  - Relevant topics of FA include
    - Accounting records and sources of accounting information (C1)
    - Ledger accounts, books of prime entry and journals (C2)
    - Control accounts and reconciliations (E3 & E4)
    - Recording transactions and events (D)
    - Preparing basic financial statements (F1-F4)
    - Relevant financial reporting standards (i.e. **examinable in FA**)
    - Ratios (H2) and analysis of financial statements (H3)
- |        |                      |
|--------|----------------------|
| IAS 1  | IAS 37               |
| IAS 2  | IAS 38               |
| IAS 7  | IFRS 3               |
| IAS 10 | IFRS 10              |
| IAS 27 | IFRS 15              |
| IAS 28 | Conceptual Framework |



# Underpinning knowledge

- Refresher course
- Pre-course work
- Course/homework
- FA CBE Specimen
  - Section A (almost all OT items are relevant)
  - Section B (Q37 only)

# Practical experience

What audit experience does the AA syllabus assume?

- None

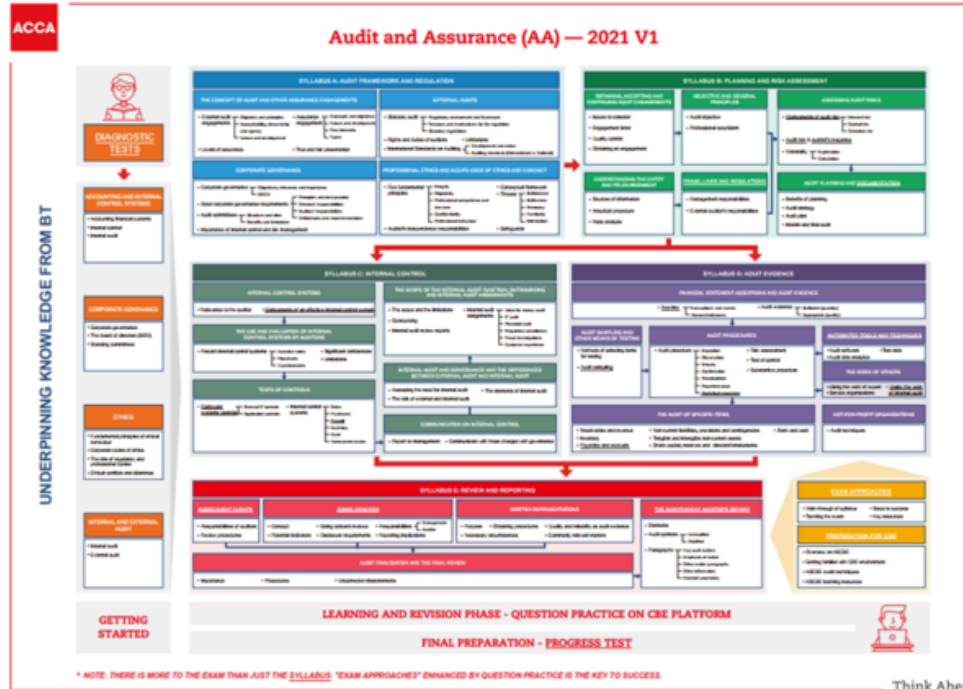
But ...

- Some will have
- Those without may feel disadvantaged

**How can we  
help students  
to “experience”  
audit?**



# Bigger picture



Think Ahead



Think Ahead

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