

**ACCA**

**Applied Skills**

**Audit and Assurance (AA)**

**Study Text**

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## How to use the materials

These Kaplan Publishing learning materials have been carefully designed to make your learning experience as easy as possible and to give you the best chances of success in your examinations.

The product range contains a number of features to help you in the study process. They include:

- (1) Detailed study guide and syllabus objectives
- (2) Description of the examination
- (3) Study skills and revision guidance
- (4) Study text
- (5) Question practice

The sections on the study guide, the syllabus objectives, the examination and study skills should all be read before you commence your studies. They are designed to familiarise you with the nature and content of the examination and give you tips on how best to approach your learning.

The **Study text** comprises the main learning materials and gives guidance as to the importance of topics and where other related resources can be found. Each chapter includes

- The **learning objectives** contained in each chapter, which have been carefully mapped to the examining body's own syllabus learning objectives or outcomes. You should use these to check you have a clear understanding of all the topics on which you might be assessed in the examination.
- The **chapter diagram** provides a visual reference for the content in the chapter, giving an overview of the topics and how they link together.
- The **content** for each topic area commences with a brief explanation or definition to put the topic into context before covering the topic in detail. You should follow your studying of the content with a review of the illustration/s. These are worked examples which will help you to understand better how to apply the content for the topic.
- **Test your understanding** sections provide an opportunity to assess your understanding of the key topics by applying what you have learned to short questions. Answers can be found at the back of each chapter.
- **Summary diagrams** complete each chapter to show the important links between topics and the overall content of the syllabus. These diagrams should be used to check that you have covered and understood the core topics before moving on.
- **Question practice** is provided at the back of each text.

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Our Quality Coordinator will work with our technical team to verify the error and take action to ensure it is corrected in future editions.

### Icon Explanations



**Supplementary reading** – These sections will help to provide a deeper understanding of core areas. The supplementary reading is **NOT** optional reading. It is vital to provide you with the breadth of knowledge you will need to address the wide range of topics within your syllabus that could feature in an exam question. **Reference to this text is vital when self-studying.**



**Definition** – Key definitions that you will need to learn from the core content.



**Key point** – Identifies topics that are key to success and are often examined.



**Test your understanding** – Exercises for you to complete to ensure that you have understood the topics just learned.



**Illustration** – Worked examples help you understand the core content better.



**Tricky topic** – When reviewing these areas care should be taken and all illustrations and Test your understanding exercises should be completed to ensure that the topic is understood.



**Tutorial note** – Included to explain some of the technical points in more detail.



**Footsteps** – Helpful tutor tips.



**Links to other syllabus areas** – This symbol refers to areas of interaction with other parts of your syllabus, either in terms of other ACCA papers that you have studied, or may go on to study, or even further professional qualifications that you may decide to pursue on completion of ACCA.

# Introduction to assurance

## Chapter learning objectives

This chapter covers syllabus areas:

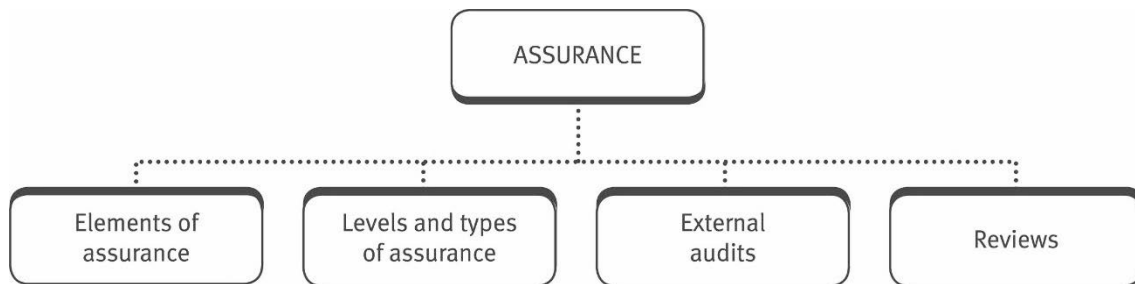
- A1 – The concept of audit and other assurance engagements
- A2e – Limitations of external audits

Detailed syllabus objectives are provided in the introduction section of the text book.



**PER**

One of the PER performance objectives (PO4) is governance risk and control. You contribute to effective governance in your area. You evaluate, monitor and implement risk management procedures, complying with the spirit and the letter of policies, laws and regulations. Working through this chapter should help you understand how to demonstrate that objective.



## 1 What is assurance?



An assurance engagement is: 'An engagement in which a practitioner obtains sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.'

[International Framework for Assurance Engagements, 7]

Giving assurance means offering an opinion about specific information so the users of that information are able to make **confident decisions** knowing that the **risk** of the information being 'incorrect' is **reduced**.

### Elements of an assurance engagement

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There are **five elements of an assurance engagement**:

#### 1 Three party involvement

**Practitioner** – the reviewer of the subject matter who provides the assurance.

**Intended users** – the people using the subject matter to make economic decisions.

**Responsible party** – the party responsible for preparing the subject matter.

#### 2 Appropriate subject matter

The information subject to examination by the practitioner.

#### 3 Suitable criteria

The criteria against which the subject matter is evaluated, i.e. standards, guidance, laws and regulations.

#### 4 Sufficient appropriate evidence

Sufficient appropriate evidence is needed to provide a basis for the opinion/conclusion.

#### 5 Written assurance report in an appropriate form

The output of the assurance engagement expressing a conclusion/opinion about the subject matter.

[International Framework for Assurance Engagements, 20]

	<b>Element</b>	<b>In relation to an audit</b>	<b>In relation to a forecast</b>
1	Three party involvement		
	Practitioner	Auditor	Assurance provider
	Intended user	Shareholders	Directors/provider of finance
	Responsible party	Directors	Directors
2	Appropriate subject matter	Financial statements	Forecast
3	Suitable criteria	Financial reporting framework	Appropriate assumptions and financial reporting framework
4	Sufficient appropriate evidence	Obtained by performing audit procedures such as tests of controls, tests of detail and analytical procedures	Obtained by performing examination procedures such as inspection of documents, enquiries and analytical procedures
5	Written assurance report in an appropriate form	Independent auditor's report providing an opinion as to whether the financial statements give a true and fair view	Independent assurance report providing a conclusion on whether anything has come to the practitioner's attention to suggest the assumptions are not a reasonable basis for the forecast, and an opinion on whether the forecast has been prepared on the basis of those assumptions



### Illustration 1 – Buying a house

Consider someone who is buying a house. There is a risk that the buyer pays a large sum of money to purchase a structurally unsafe property which needs further expenditure to make it habitable. To reduce this risk, it is normal for house buyers (the users) to pay a property surveyor (the practitioner) to perform a structural assessment of the house (the subject matter). The surveyor communicates any structural deficiencies identified (measured against building regulations/best practice and other criteria) in a written report to the house buyer. With this information, the potential buyer can make a decision whether or not to buy the house with the confidence that they know its structural condition. In this example, the responsible party is the current house owner, and the evidence would be obtained through visual inspection of the property.



### Assurance engagements

Examples of assurance engagements include:

- Audit of financial statements
- Review of financial statements
- Systems reliability reports
- Verification of social and environmental information
- Review of internal controls
- Value for money audit in public sector organisations.

General principles the assurance provider must follow when performing such engagements include:

- Comply with ethical requirements.
- Apply professional scepticism and judgement.
- Perform acceptance and continuance procedures to ensure only work of acceptable risk is accepted.
- Agree the terms of engagement.
- Comply with quality management standards.
- Plan and perform the engagement effectively.
- Obtain sufficient and appropriate evidence.
- Consider the effect of subsequent events on the subject matter.
- Form a conclusion expressing either reasonable or limited assurance as appropriate.
- Document the evidence to provide a record of the basis for the assurance report.





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