

ACCA

Strategic Professional –
Options

Advanced Audit and Assurance
(AAA)

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 practise

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 practise** 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.

Reference to ISA paragraph numbers are for copyright purposes only. Students are not required to learn this level of detail.

Regulatory environment

Chapter learning objectives

This chapter covers syllabus areas:

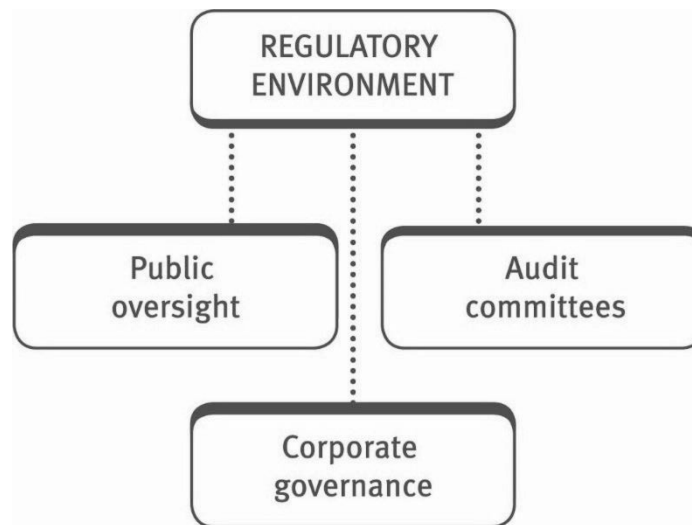
- A1 – International regulatory frameworks for audit and assurance services
- G – Current issues and developments.

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.



Exam focus

This chapter considers the reasons behind the mechanisms for regulating assurance services and how standards of corporate governance are maintained. You need to have an awareness of recent developments in the profession, which will require you to develop an ability to form your own opinion and reach your own conclusions.

1 The need for assurance services



Assurance professionals provide reports that give an independent opinion as to whether the subject matter complies with pre-determined criteria. This enables the end user of that information to place more or less reliance on that information when making decisions.

Decision makers within financial markets need to have the confidence to make **informed decisions**. In order to make these decisions they need information they can trust. The main investment decisions that take place concern the buying and selling of shares. Without credible, reliable information at their disposal, investors cannot make those decisions.

It is not just shareholders who rely on this information, there are a range of other stakeholders who also rely on assurance services. For example, it is common for banks to seek audited financial statements and independently examined forecasts before making lending decisions. Many companies request audited financial statements before buying from, or supplying a company.

As well as investments in businesses, other stakeholders must make decisions about how to deploy resources: suppliers, customers, employees and prospective lenders all need information before making significant decisions that could have damaging financial repercussions.

2 Regulation of the profession



Progression

Regulation of the accountancy profession was covered briefly in Audit and Assurance at the Applied Skills level. The Advanced Audit and Assurance syllabus looks at regulation from a broader perspective.

As a result of financial scandals, and the public concern that followed, many changes were implemented in the global auditing and accountancy profession.

Examples of developments include:

- The IAASB's International Standards on Auditing (ISAs) have been adopted or are being used as a basis for national standards in over 100 countries worldwide. The World Federation of Exchanges endorsed the IAASB's standard setting process and ISAs.
- The IESBA's International Code of Ethics for Professional Accountants has been adopted by many member institutions.
- Legislative changes have been established to introduce new corporate governance requirements. The most famous of these, The Sarbanes Oxley Act (SOX) in the US, led to the creation of the Public Company Accounting Oversight Board, who create standards for listed entities and conduct inspections of audit firms' work.
- The Public Interest Oversight Board was set up in 2005 to oversee the International Federation of Accountants' auditing and assurance, ethics, and education standard setting activities and its membership compliance programme.

Global regulation

The main problem is that harmonisation requires national regimes to adopt ISAs. Many countries have adopted ISAs but they have been adapted to suit local customs/laws and, as a result, many differences still exist in the quality of audits worldwide.



The need for regulation

Business failures, particularly large, high-profile businesses, cause loss of confidence within global financial markets. Confidence in the reliability of financial information is essential to the functioning of these markets. Whilst it is not the only factor in helping to achieve confidence, good quality, independent audit and assurance has a key role to play. A series of recent and high-profile corporate failures has eroded trust in the assurance market and, as a result, mechanisms for increased regulation of the auditing profession have been introduced.

Self-regulation

The accountancy profession introduced standards to regulate financial reporting and shortly afterwards auditing standards were introduced.

Standards were set **by** the accounting profession **for** the accounting profession to follow.

Self-regulation seemed to make sense because the accountancy organisations usually had a 'public interest' remit written into their constitutions and they understood financial reporting and auditing better than anyone.

However, high profile corporate failures, such as Enron have led to the questioning of self-regulation as a satisfactory mechanism.

Global Regulation

The globalisation of business, professions and investment markets has been rapid. Once businesses started to cross national borders it soon became clear that the variation of laws and regulations in different countries made life difficult, both for the multinationals and the professions trying to provide services to them. This realisation led to the foundation of the International Federation of Accountants (IFAC).



International Federation of Accountants (IFAC)

The International Federation of Accountants (IFAC) is the global organisation for the accountancy profession. It was formed in 1977 and is based in New York. IFAC has more than 180 member and associate organisations (including the ACCA), representing 3 million accountants from 130 separate countries.

IFAC's overall mission is to serve the public interest, strengthen the worldwide accountancy profession, and contribute to the development of strong international economies by establishing and promoting adherence to high quality professional standards.

The structure of IFAC is as follows:

The **IFAC Council** comprises one representative from each member body. It meets once a year and elects the board.

The **IFAC Board** is responsible for setting policy and overseeing the work of the various committees.

The **IFAC Nominating Committee** makes recommendations regarding the composition of IFAC boards, advisory groups and task forces.

The main bodies to be aware of are:

- The **International Auditing and Assurance Standards Board (IAASB)**: develops and promotes ISAs and other assurance standards to improve the uniformity of auditing practices and related services throughout the world.



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