



EXPRESS Notes

ACCA Paper F8 (INT)

Audit and Assurance

For exams in 2012



theexpgroup.com

Contents

	<i>About Express Notes</i>	3
1.	Audit Reports	7
2.	Ethics	12
3.	Auditor Appointment	15
4.	Audit Letters	19
5.	Audit Risk	23
6.	Internal Control	26
7.	Internal Control & Audit in a Computer Environment	29
8.	Internal Audit	32
9.	Audit Evidence	34
10.	Inventory	37
11.	Subsequent Events	40
12.	Going Concern	43
13.	Corporate Governance	46



START About Express Notes

We are very pleased that you have downloaded a copy of our Express notes for this paper. We expect that you are keen to get on with the job in hand, so we will keep the introduction brief.

First, we would like to draw your attention to the terms and conditions of usage. It's a condition of printing these notes that you agree to the terms and conditions of usage. These are available to view at www.theexpgroup.com. Essentially, we want to help people get through their exams. If you are a student for the ACCA exams and you are using these notes for yourself only, you will have no problems complying with our fair use policy.

You will however need to get our written permission in advance if you want to use these notes as part of a training programme that you are delivering.

WARNING! These notes are not designed to cover everything in the syllabus!

They are designed to help you assimilate and understand the most important areas for the exam as quickly as possible. If you study from these notes only, you will not have covered everything that is in the ACCA syllabus and study guide for this paper.

Components of an effective study system

On ExP classroom courses, we provide people with the following learning materials:

- The Express notes for that paper
- The ExP recommended course notes / essential text or the ExPedit classroom course notes where we have published our own course notes for that paper
- The ExP recommended exam kit for that paper.
- In addition, we will recommend a study text / complete text from one of the ACCA official publishers, but we do not necessarily give this as part of a classroom course, as we think that it can sometimes slow people down and reduce the time that they are able to spend practising past questions.

EXP classroom course students will also have access to various online support materials, including:

- The unique ExP & Me e-portal, which amongst other things allows "view again" of the classroom course that was actually attended.
- ExPand, our online learning tool and questions and answers database

Everybody in the World has free access to ACCA's own database of past exam questions, answers, syllabus, study guide and examiner's commentaries on past sittings. This can be

an invaluable resource. You can find links to the most useful pages of the ACCA database that are relevant to your study on ExPand at www.theexpgroup.com.

How to get the most from these Express notes

For people on a classroom course, this is how we recommend that you use the suite of learning materials that we provide. This depends where you are in terms of your exam preparation for each paper.

Your stage in study for each paper	These Express notes	EXP recommended course notes, or EXPedite notes	EXP recommended exam kit	ACCA online past exams
Prior to study , e.g. deciding which optional papers to take	Skim through the Express notes to get a feel for what's in the syllabus, the "size" of the paper and how much it appeals to you.	Don't use yet	Don't use yet	Have a quick look at the two most recent real ACCA exam papers to get a feel for examiner's style.
At the start of the learning phase	Work through each chapter of the Express notes in detail before you then work through your course notes. Don't try to feel that you have to understand everything – just get an idea for what you are about to study. Don't make any annotations on the Express notes at this stage.	Work through in detail. Review each chapter after class at least once. Make sure that you understand each area reasonably well, but also make sure that you can recall key definitions, concepts, approaches to exam questions, mnemonics, etc.	Nobody passes an exam by what they have studied – we pass exams by being efficient in being able to prove what we know. In other words, you need to have effectively input the knowledge and be effective in the output of what you know. Exam practice is key to this. Try to do at least one past exam question on the learning phase for each major chapter.	Don't use at this stage.

Your stage in study for each paper	These Express notes	ExP recommended course notes, or ExPeditate notes	ExP recommended exam kit	ACCA online past exams
Practice phase	Work through the Express notes again, this time annotating to explain bits that you think are easy and be brave enough to cross out the bits that you are confident you'll remember without reviewing them.	Avoid reading through your notes again. Try to focus on doing past exam questions first and then go back to your course notes/ Express notes if there's something in an answer that you don't understand.	This is your most important tool at this stage. You should aim to have worked through and understood at least two or three questions on each major area of the syllabus. You pass real exams by passing mock exams. Don't be tempted to fall into "passive" revision at this stage (e.g. reading notes or listening to CDs). Passive revision tends to be a waste of time.	Download the two most recent real exam questions and answers. Read through the technical articles written by the examiner. Read through the two most recent examiner's reports in detail. Read through some other older ones. Try to see if there are any recurring criticisms he or she makes. You must avoid these!
The night before the real exam	Read through the Express notes in full. Highlight the bits that you think are important but you think you are most likely to forget.	Unless there are specific bits that you feel you must revise, avoid looking at your course notes. Give up on any areas that you still don't understand. It's too late now.	Don't touch it!	Do a final review of the two most recent examiner's reports for the paper you will be taking tomorrow.
At the door of the exam room before you go in.	Read quickly through the full set of Express notes, focusing on areas you've highlighted, key workings, approaches to exam questions, etc.	Avoid looking at them in detail, especially if the notes are very big. It will scare you.	Leave at home.	Leave at home.

Our Express notes fit into our portfolio of materials as follows:

Express Notes

Provide a base understanding of the most important areas of the syllabus only.



Expedite Notes

Provide a comprehensive coverage of the syllabus and accompany our face to face professional exam courses



Expert Notes

Provide detailed coverage of particular technical areas and are used on our Professional Development and Executive Programmes.

To maximise your chances of success in the exam we recommend you visit www.theexpgroup.com where you will be able to access additional free resources to help you in your studies.



START
About The EXP Group

Born with a desire to be the leading supplier of business training services, the ExP Group delivers courses through either one of its permanent centres or onsite at a variety of locations around the world. Our clients range from multinational household corporate names, through local companies to individuals furthering themselves through studying for one of the various professional exams or professional development courses.

As well as courses for ACCA and other professional qualifications, our portfolio of expertise covers all areas of financial training ranging from introductory financial awareness courses for non-financial staff to high level corporate finance and banking courses for senior executives.

Our expert team has worked with many different audiences around the world ranging from graduate recruits through to senior board level positions.

Full details about us can be found at www.theexpgroup.com and for any specific enquiries please contact us at info@theexpgroup.com.

Alternatively, the examiner may give you a draft audit report and ask you to identify and explain in what respects the report is not satisfactory.



KEY TERMINOLOGY

ISA 700 *The Auditors Report on Financial Statements* identifies the key elements of the auditor's report (these must be learned and you should be prepared to give a brief explanation of the purpose of each element):

1. Title
2. Addressee
3. Introductory paragraph
4. Statement of responsibilities of management
5. Statement of responsibilities of the auditors
6. Scope paragraph
7. Opinion
8. Auditor's signature
9. Date of report
10. Auditor's address



KEY KNOWLEDGE Modified Audit Reports

The standard audit report may be modified, such modification may or may not result in the auditors giving a qualified opinion. It is important to remember that modification of the audit report will only be required if there is some **material** issue.

With the practical type of question always make sure that you use any information available in the scenario to help you assess **materiality** in a sensible way, vague references to the fact that you would 'consider materiality' will **NOT** impress the examiner.

For example, let us say you are given the information that a company's profit before tax (PBT) is \$1,000,000 and that the company has failed to make provision for a known bad debt of \$150,000. State the obvious by saying that at 15% of PBT the bad debt is material, in that a standard benchmark would be to consider an item impacting on PBT as being material if it is in the range of 5% to 10% of such PBT.

It is also important when assessing materiality to remember that this must be considered so far as the user and not the preparer of financial statements is concerned. A useful **working definition of materiality** may be taken as

'transactions and other events are likely to be seen as material in the context of a company's financial statements if their omission, misstatement or non-disclosure would matter to a proper understanding of such financial statements on the part of a potential user.'



KEY KNOWLEDGE

Modified Audit Reports with Unqualified Opinion

Sometimes there may be matters relating to the financial statements which, whilst fully and adequately disclosed within the financial statements, the auditor considers worthy of bringing to the particular attention of users.

The auditor achieves this by including in the audit report an additional paragraph known as an '**emphasis of matter**' paragraph. This paragraph will be 'self-contained' and will NOT otherwise impact on the standard wording of an unmodified report.

Key points to remember in relation to the use of such paragraph are:

- it should have a **separate heading**
- it should be positioned **AFTER** the opinion paragraph
- it must be made clear that the **audit opinion is not qualified** and so this paragraph should start with words such as '**Without qualifying our opinion we draw attention to ...**'

Past examiners' reports have indicated that many candidates have been unclear as to how and when to make proper use of an emphasis of matter paragraph. It is important, therefore, that you are totally happy with this aspect of audit reports.

Examples of where the use of such paragraph would be appropriate include:

- where there the financial statements have been prepared on a going concern basis, but this is dependent upon some **significant uncertainty which is fully and adequately disclosed** in the notes to the financial statements
- where there is a material inconsistency between the financial statements and the Directors' Report and the adjustment required to remove the inconsistency would need to be made in the Director's Report but the directors are not prepared to make such adjustment.



KEY KNOWLEDGE

Modified Audit Reports with Qualified Opinion

According to ISA 700, there are two main circumstances which might give rise to the auditors deciding that it is necessary for them to qualify their audit opinion:

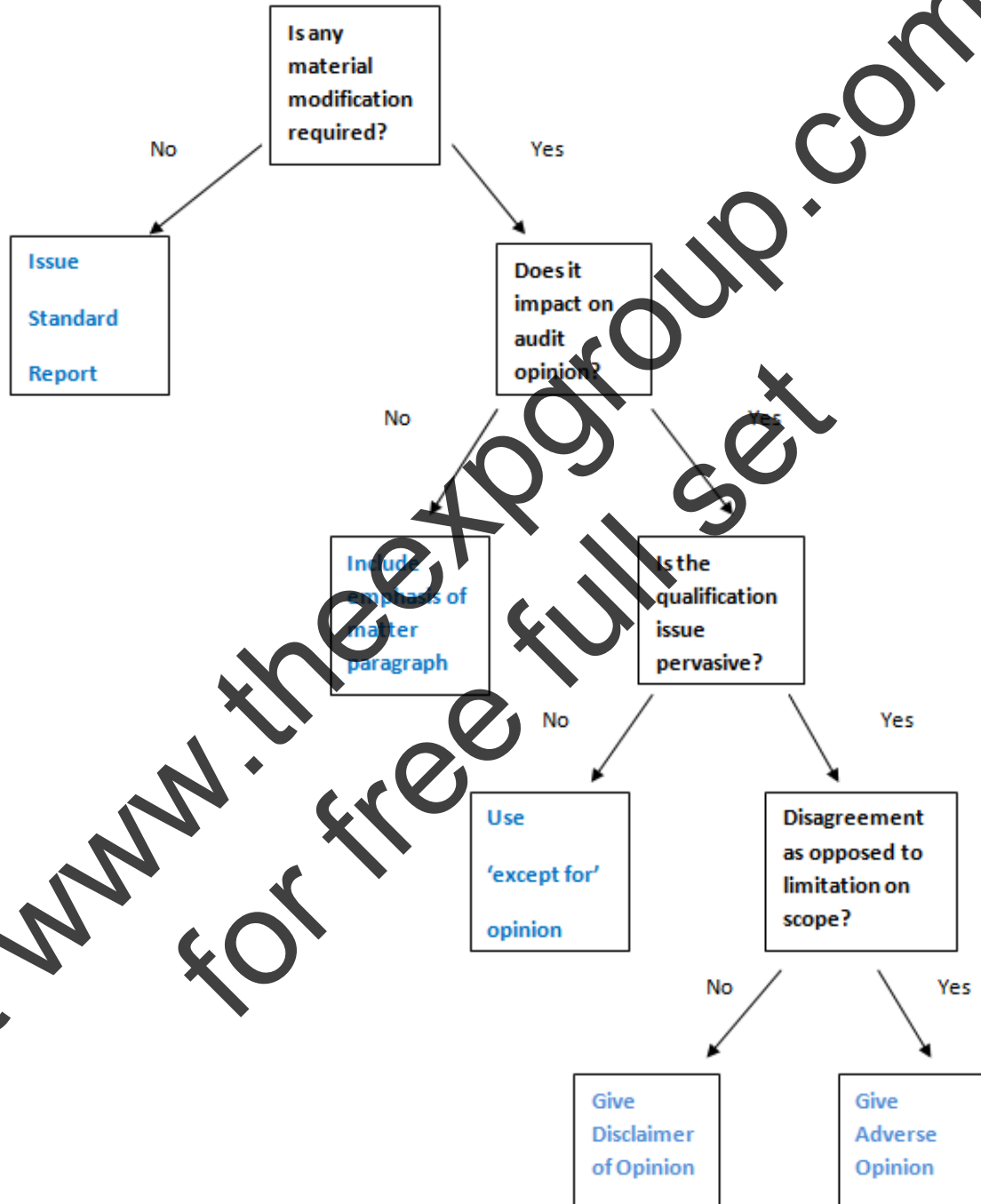
1. **Limitation on scope** which arises where the auditor has been unable to carry out some audit work which normally they would have expected to perform and/or where the circumstances are such that audit evidence which the auditor would normally expect to be available for some reason does not exist.
2. **Disagreement** exists between the auditors and client management in relation to some aspect of the financial statements.

The type of qualified opinion to be given will depend not just on the circumstances as indicated above, but also on how serious the limitation on scope or disagreement is namely is it:

1. **Material but not pervasive**, that is to say that the limitation on scope or disagreement is confined to one particular aspect of the financial statements, such that the auditor is able to say that 'except for this matter the financial statements give 'a true and fair view etc'.
2. **Material and pervasive**, that is to say that the nature of the limitation on scope or disagreement is such that it will **impact on the overall view given by the financial statements**. In such situation if it is caused by **limitation on scope**, the auditor should give a **Disclaimer of Opinion**, whereas if it is because of **disagreement**, they should give an **Adverse Opinion**.

The circumstances giving rise to a qualified audit opinion should be described in a separate paragraph which appears **BEFORE** the opinion paragraph. Wherever possible, the auditor should **quantify the qualification circumstances** as this should make it easier for the reader to appreciate its significance.

SUMMARY DIAGRAM OF APPROACH TO PRACTICAL AUDIT REPORT QUESTIONS





KEY TERMINOLOGY

The fundamental principles of professional ethics as outlined in the **IFAC Code of Ethics** is a very important **TOPIC**. You might like to use **TOPIC** as a useful mnemonic to help you remember these principles.

Technical (professional) competence and due care must be exercised by all members at all times. Members have a responsibility to act in accordance with best practice and to keep themselves technically up to date.

Objectivity must be demonstrated by not allowing personal interest or influence of others to effect a member's professional judgement.

Professional behaviour must be demonstrated by members at all times, in both their private and business life, so as not to be seen to take any action which might bring the profession into disrepute.

Integrity requires that members are always honest and do not knowingly allow themselves to be associated with anything dishonest so far as others are concerned.

Confidentiality requires that under normal circumstances members should at all times respect confidentiality with regard to a client's affairs so far as third parties are concerned and that members should not make use of client information for personal gain.



KEY KNOWLEDGE

Threats to Ethical Behaviour

The ACCA Code of Ethics recognises a number of threats to a member's ethical professional behaviour. Whilst such threats apply generally, they are particularly relevant when considering the question of **auditor independence**.

It is always worth remembering the following "It will never be sufficient for an auditor to claim that he was independent in fact, he must always be clearly seen to have been independent in practice."

The five threats are:

1. **Self-interest** - e.g. owning shares in a client company
2. **Self-review** – e.g. providing accounting services to an audit client
3. **Familiarity** – e.g. acting as auditor to a company where a close relative is the CEO
4. **Intimidation** – e.g. continuing to act as auditor to a company which has started legal proceedings against the audit firm
5. **Advocacy** – e.g. acting on a client's behalf in negotiations to raise new finance for the company

Safeguards against threats

As part of its **quality control procedures**, a professional firm must establish its own formalised procedures for the identification and management of such threats. Additionally, general safeguards may be seen as being:

- Those **created by the ACCA** e.g. requirement for potential members to complete an ethics module
- Those **created by members themselves** e.g. ensuring that CPD requirements are met

Visit www.theexpgroup.com
for free full set



KEY KNOWLEDGE

Appointment of Auditors

Key points to note are:

- Normally made by members at company's AGM
- Often provision made for initial appointment to be made by directors, who may also fill a casual vacancy
- Under corporate governance provisions approval of audit committee required
- If previous auditors, 'professional clearance' should be obtained
- Before accepting nomination auditors should consider quality control matters such as independence, potential conflicts of interest, professional competence etc



KEY KNOWLEDGE

Auditor Rights

Often provided under local statute, where not, sort of thing that should be covered by engagement letter, usual matters covered being rights to:

- have access to all company books, records etc at all times
- obtain all information and explanations considered necessary from company management and staff
- receive notice of, to attend and be heard at all general meetings of the company on matters relating to the financial statements and/or their own appointment
- to resign and request directors to convene GM of company where there are 'surrounding circumstances' connected with the resignation
- to make representations to shareholders where there is attempt to remove them from office with which they do not concur



KEY KNOWLEDGE

Auditors' Duties

Once again may vary from country to country, but main duties and responsibilities would normally be seen as being:

- to report to shareholders whether financial statements give a true and fair view and have been properly prepared in accordance with relevant legislation and/or relevant accounting standards
- to consider implications for audit reporting on financial statements of consistency of 'other financial information' published together with the financial statements
- to review and report on effectiveness of company's internal control systems under corporate governance /stock exchange provisions in the case of listed companies
- to qualify audit opinion where necessary
- to provide proper notice on resignation
- to detect material fraud and other irregularities
- to maintain independence



KEY KNOWLEDGE

Auditors' Resignation

The main concern here is that auditors should not be able to just 'fade away quietly' in order to avoid an awkward situation, leaving shareholders and others who place reliance upon their work, in the dark about important issues of which the auditors are aware.

Taking UK provisions as an example therefore, the key points are:

- auditors must deposit formal written notice of their resignation at the company's registered office
- such notice must be accompanied by a positive/negative statement as to whether in their opinion there are any surrounding circumstances requiring communication to the members or loan creditors of the company
- where there are surrounding circumstances, the auditors may request the directors to convene a GM so that the members may have the opportunity of questioning them further



KEY KNOWLEDGE

Removal of Auditors

Once again we can take the UK provisions as being a good example of good practice:

- special notice must be given of the resolution proposing a change in auditors
- auditors must be notified of resolution and, if they wish to contest, have the right, at the company's expense, to pre-circularise their representations to the members as to why they should remain in office
- at the meeting auditors may again put forward their position before the vote takes place
- removal will require the passing of an ordinary resolution (simple majority)

Visit www.theexpgroup.com
for free full set