

AAA marking report

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June 2019 AAA exam

Introduction

This report sets out general feedback before considering each question in turn. Specific examples of how students can improve their answers have been included.

Marker biography

Ben Wilson trained as an auditor at KPMG before moving into lecturing. He has 12 years of teaching experience.

Ben works with the ICAEW and ACCA as an exam marker, specialising in auditing and management papers. Ben is an ACCA tutor expert for auditing papers.

Overall paper feedback

Group pass rate	70% (60 scripts submitted)
Actual June 19 pass rate	31%
Average mark	58%

General feedback

C30% of students referred extensively to the published model script when writing their answers. Long sections were either identical to the model answer, or were paraphrased.

The high pass rate and average mark reflect this.

Where students did genuinely write their own answers, many clearly did not attempt the exam under timed conditions. Several scripts were greater than 15 pages in length – this isn't feasible in the time available.

Tutorial note to students – the examiner's published model answers are extremely detailed, and are intended as a reference tool. The examiner does not expect students to write like this under the time pressure of the exam. Rote learning of these answers / trying to write like this is not helpful to your chances of passing.

General positives

+ Use of numbers

Most scripts made effective use of numbers throughout. For example, calculating and commenting on materiality in relation to revenue/assets. This is a source of easy marks in AAA, and should be encouraged throughout the exam.

+ Structure in Q1

Earning the 4 professional marks in Q1 can boost a marginal script up to a pass. Many students earned all 4 marks by including 1) an appropriate title / heading 2) introduction 3) using appropriate language / sub headings 4) a conclusion

+ Completing the paper

Almost all students completed the full paper, allowing them to earn the easier marks available towards the end of the exam. In AAA, many students get bogged down in Q1 and don't have time to attempt Q2 and Q3 effectively. Noted – here, many students did not sit the exam to time

+ Technical knowledge

Excellent technical knowledge was shown by all students, even those scoring very low marks. However, this is of limited use in the AAA exam. The vast majority of marks are for application – which means using the scenario information to make tailored points.

General weaknesses

- Copying the examiner's answer style

Many students quoted extensively from accounting / auditing standards – often at the expense of analysing the scenario. Demonstrating knowledge in this way scores very few marks in AAA. Noted that the examiner's published answer does quote from the standard – students are not expected to do this under the time pressured conditions of the exam.

- Not using the scenario information

Every point in AAA should be supported by a fact from the detailed scenario. Too often, students' answers could have been about any company. Generic answers score limited credit in AAA.

- Points not developed sufficiently

Students often made strong points, but then did not explain their answers in sufficient detail. This limited the number of marks awarded.

Detailed feedback – question 1a)

(a) Evaluate the significant risks of material misstatement to be considered in planning the company's audit. You should not include risks of material misstatement relating to the valuation of the company's bearer plants or biological assets, which will be evaluated separately (20 marks)

Improvement point 1 – write succinctly

Many students wasted time by typing long answers, when a short statement would score the same credit.

Writing succinctly allows you to move on and generate more mark scoring points.

TYPICAL STUDENT ANSWER	SUGGESTED IMPROVEMENT
In this financial year, \$220,000 of research and development costs have been capitalised as an intangible asset. This represents 1.8% of total assets and 10.5% of profit before tax, and would be considered material to the financial statements. (38 words)	Material research and development costs were capitalised (\$220k, 1.8% of assets / 10.5% of profit before tax). (17 words)

Improvement point 2 – quoting from standards

Students do need to show knowledge of relevant accounting / auditing standards. However, this should be done in the context of the scenario – and should be as brief as possible. Writing out long sections from the standards takes ages, and scores very few marks.

Note – the examiner's model answers do include accounting standard references. This style is not intended to be copied by students.

TYPICAL STUDENT ANSWER	SUGGESTED IMPROVEMENT
According to IAS 38, development costs should only be capitalised if certain criteria have been met. These criteria include probable intention to complete the work, technical feasibility of the product, able to use / sell, resources in place to complete, reliable estimate of the costs to complete. These criteria haven't been met, so the costs should not have been capitalised.	The prototype is 2 years from launch, so technical feasibility of the product has not been proven. Development costs should not have been capitalised. Intangible assets are overstated, expenses understated.

Improvement point 3 – be specific about misstatements

In Q1a), students must be detailed about the exact account / nature of the misstatement. State account and the under/overstatement.

TYPICAL STUDENT ANSWER	SUGGESTED IMPROVEMENT
A \$375k loan was taken out during the year. However, gearing fell from 32% to 28%. Loans may be misstated.	A \$375k loan was taken out during the year, which would increase gearing. However, gearing fell from 32% to 28%. Long term liabilities may be understated, or equity overstated.

Improvement point 4 – develop points fully

Students often made decent points, but did not add sufficient detail / explanation to score fully. In Q1a), there are typically 3 marks available per well explained point – which means that detail is required.

TYPICAL STUDENT ANSWER	SUGGESTED IMPROVEMENT
Online sales increased significantly, with discounts being offered to promote sales. Discounts could lead to revenue being misstated.	Online sales increased significantly, with discounts being offered to promote sales. The discount level varied throughout the year. The accounting system may not have been updated correctly, so discounts could be applied at the wrong rate / to the wrong products. Revenue could have been recorded incorrectly, leading to a misstatement.

Detailed feedback – question 1b)

(b) Design the principal audit procedures to be used in the audit of: (i) The impairment of the factory, and (ii) The development cost capitalised in respect of the new packaging.

Improvement point 1 – explain WHY an audit procedure is being performed

To score a full mark for an audit procedure, students need to state WHAT is being done and explain WHY the test is being performed.

Often, students did not explain WHY, so scored only half marks

TYPICAL STUDENT ANSWER	SUGGESTED IMPROVEMENT
Inspect the damaged property to assess its condition	Inspect the damaged property to assess its condition – confirming existence and supporting valuation.

Improvement point 2 – less reliance on management discussions!

Many students suggested ‘discuss with management.....’ when a more robust procedure was available.

Management discussions are a weak source of audit evidence. Management are not objective. Try to suggest 3rd party evidence wherever possible

TYPICAL STUDENT ANSWER	SUGGESTED IMPROVEMENT
Discuss the level of damage to the property with management. Ensure that this is consistent with the impairment calculation.	Obtain the valuer’s report, showing the level of damage to the property. Ensure this is consistent with managements calculation, supporting accuracy.

Improvement point 3 – explain HOW you would test management’s assumptions

Many students correctly suggested ‘check managements’ assumptions for reasonableness’ without saying how they would do this. This meant that only half a mark was scored.

TYPICAL STUDENT ANSWER	SUGGESTED IMPROVEMENT
Check managements’ assumptions about the value of the property for reasonableness	Check managements’ assumptions about the value of the property, by comparing land registry records of sale prices in the area – supporting valuation

Detailed feedback – question 1c)

c) Discuss the matters to be considered in planning to use an auditor's expert in the audit of the fruit, which are recognised as biological assets of the company. (6 marks)

Improvement point 1 – tailor points using the scenario information

Many students' answers could've been about ANY expert valuing ANY item. In AAA, higher marks are available where you use the scenario information to make tailored points.

TYPICAL STUDENT ANSWER	SUGGESTED IMPROVEMENT
Competence of the valuer. The expert should be qualified and experienced, holding relevant qualifications.	Competence of the valuer. Valuing fruit trees is highly specialised. Only an expert who is experienced in fruit tree valuation / holds relevant biological qualifications would be competent to perform the work.

Improvement point 2 – link in with wider analysis points

Few students built a linkage between their answers in Q1a) and Q1b). For example, many questioned management integrity in 1a), but did not use this point to support their discussion in part b)

TYPICAL STUDENT ANSWER	SUGGESTED IMPROVEMENT
Independence of the valuer. The expert should be objective, without any financial or personal link to the company. .	Independence of the valuer. The expert should be objective, without any financial or personal link to the company. As a family run / controlled business, with limited corporate governance in place, there is a higher risk that an expert with connections to the family is appointed.

Detailed feedback – question 1d)

d) Discuss the audit implications of the email from Len Larch, recommending any further action to be taken by our firm

Improvement point 1 – use the requirement to generate sub headings

There were two requirements here

- 1) Discuss audit implications
- 2) Recommend further actions for the audit firm

Students needed to make a range of points that answered each of the requirements.

Audit implications are high level points (e.g. management integrity is questioned, meaning that less reliance can be placed on management representations).

Recommending actions – should be specific steps for the auditors to take (e.g. consider breaching confidentiality and informing the regulator, as the public’s safety is at risk, this is clearly in the public interest).

The most effective way to answer both requirements is to have a subheading for each..

Improvement point 2 – focus on the issues, rather than background

Many students followed the examiner’s model answer, and quoted long extracts from ISA 250 and ISA 315. This was not required to answer the question, and wasted time / didn’t score marks

The model answer is a reference tool – and is not intended to be rote learned / copied.

TYPICAL STUDENT ANSWER	SUGGESTED IMPROVEMENT
<p>The auditor is required by ISA 315 Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment to gain an understanding of the legal and regulatory framework in which the audited entity operates. This will help the auditor to identify non-compliance and to assess the implications of non-compliance.</p> <p>Therefore the auditor should ensure a full knowledge and understanding of the laws and regulations relevant to the use of chemicals in the company’s farms, and the implications of non-compliance.</p>	<p>Research laws and regulations relevant to the use of chemicals in the company’s farms, and the implications of non-compliance.</p> <p>Assess whether the company is in breach of the laws.</p>

Detailed feedback – question 2a)

a) Critically appraise the extract from the draft auditor's report for the year ended 31 March 20X9.
Note: You are NOT required to re-draft the extracts from the auditor's report. (10 marks)

Improvement point 1 – Aim for 10 points

1 mark is awarded per relevant point in this type of question. Many students only wrote 3 or 4 points – limiting the number of marks they could score.

It can be difficult to generate ideas in this type of question. Here are two suggestions if you are struggling:

- 1) Look for small, micro issues (e.g. incorrect headings, incorrect order or incorrect paragraph type). There will likely be 3 or 4 small problems.
- 2) Read the detailed content of each paragraph. There will be at least one issue with the content of each paragraph (e.g. inappropriate opinion given, unprofessional wording used, wrong type of paragraph used).

Improvement point 2 – ONLY answer the question that has been set

A small minority of students strayed beyond the requirement. Students were only given an 'extract' from the report – not the full report – so commenting on missing content did not score marks.

The requirement included a specific instruction *Note: You are NOT required to re-draft the extracts from the auditor's report.* Where students did redraft the extracts, they wasted time / did not score marks.

Detailed feedback – question 2b)

b) From the information provided above, recommend the matters which should be included in Eddie & Co's report to those charged with governance, and explain the reason for their inclusion.
(15 marks)

Improvement point 1 – consider the audience when making points

This question focused on reporting to 'those charged with governance' (TCWG). Each point in the answer should consider the audience (i.e. TCWG), and focus on items that would be of interest to them.

Often, students included valid points, but did not phrase their answers in a way that would be relevant to TCWG, so scored limited marks.

TYPICAL STUDENT ANSWER	SUGGESTED IMPROVEMENT
There was a 3 week delay in providing key information to the auditor. This caused a disruption to the auditor's work, making their work less efficient. This should be reported to TCWG.	There was a 3 week delay in providing key information to the auditor. This caused a disruption to the auditor's work, making their work less efficient. This could cause the signing of the audit report to be delayed, or increased audit fees to be charged – which should be reported to TCWG.

Improvement point 2 – explain points fully

The requirement asked students to 'explain the reason' for including points in the report. Often, students did not give sufficient detail.

Students should consider the verb in the requirement when deciding how much detail is required to support a point. If the verb is 'list' or 'state', very little support is needed.

'Explain' is a higher level verb, requiring 1 or 2 full sentences of supporting information to be given.

TYPICAL STUDENT ANSWER	SUGGESTED IMPROVEMENT
Unauthorised expenditure of \$13.2m was made, showing weak compliance with internal controls and a lack of management integrity.	Unauthorised expenditure of \$13.2m was made, showing weak compliance with internal controls and a lack of management integrity. There may have been other instances where internal controls have been overridden. TCWG should be informed so that they can investigate and implement procedures to prevent further breaches.

Detailed feedback – question 3a)

Explain why accounting estimates are considered to be a source of high audit risk and discuss the reasons for the development of ED-540 commenting on its proposals for an enhanced risk assessment in relation to the audit of accounting estimates. (8 marks)

Improvement point 1 – use the requirement to generate sub headings

There were two requirements here

- 1) Explain why accounting estimates are considered to be high audit risk
- 2) Discuss the reasons for the development of ED-540

Students needed to answer each requirement separately. Many students did not answer the second requirement.

Having a sub heading for each requirement would encourage students to make points to answer both parts.

Improvement point 2 – use the definition of ‘audit risk’ to help generate marks

Audit risk is a technical term – and is made up of 3 parts (inherent risk, control risk and detection risk).

Although there weren’t marks available for defining audit risk, students could use the definition to help them to generate mark scoring points.

Having a range of points that covered inherent risk, control risk and detection risk would’ve helped students to generate a more mark scoring content.

Most students made inherent risk points (e.g. judgemental, prone to management bias), but did not refer to detection risk (e.g. complex, more likely that the auditor doesn’t fully understand / misses something).

Improvement point 3 – in the ‘recent developments in auditing’ question, use the information given to make sensible points

Most students did not make any comments on ED-540 here. Presumably because they had (understandably) not read the document, so did not feel in a position to comment on it.

The AAA exam generally includes one requirement that refers to a recent development in auditing. A useful skill here is to use the information provided in the requirement – it will often allow you to make 1 or 2 mark scoring points – even if you are unfamiliar with the development/document.

Here, the requirement stated “**discuss the reasons for the development of ED-540 commenting on its proposals for an enhanced risk assessment in relation to the audit of accounting estimates**” . Considering this in more detail – we are told that an **enhanced** risk assessment is needed. Why would risk assessments need to be enhanced? Current risk assessments must be lacking in some way, meaning that risks are not identified / addressed – leading to accounting estimates being poorly audited.

This simple point doesn’t require any knowledge of ED-540, but would score 1 or 2 marks.

Detailed feedback – question 3b)i)

i) Evaluate the client’s accounting treatments and the difficulties which you might encounter when auditing each of the accounting estimates described above;

Improvement point 1 – use the requirement to generate sub headings

There were two requirements here

- 1) Evaluate the client’s accounting treatment
- 2) Difficulties you might encounter when auditing

To score a high mark, points were required covering each requirement.

Having a sub heading for each requirement would encourage students to make points to answer both parts.

Improvement point 2 – use the verb in the question to guide you

‘Evaluate’ requires you to look for both positives and negatives. Here, there will be things that management have done correctly, and things they’ve done wrong!

Many students only focused on the negatives, i.e. the things that had been done incorrectly.

In an evaluation question, look out for points on both sides. Here, management had done several things right – give them credit for it!

Improvement point 3 – avoid repetition in a multi-scenario question

There were 3 separate scenarios, each involving a different accounting estimate challenge.

Several students made the exact same point for each of the scenarios (e.g. this is a judgemental matter, and is subjective, so management may have made an inappropriate estimate).

If there are multiple scenarios, you won’t score marks for making the same point again and again. You must tailor your argument, making it specific to that scenario.

TYPICAL STUDENT ANSWER	SUGGESTED IMPROVEMENT
Estimating the number of staff who will remain for the full 3 years, and claim their share options, is a judgement call. Hard evidence to support the number is not available, making this difficult to audit.	Management have estimated that all 55 staff will remain for the full 3 years, and claim their share options. This may prove unrealistic, as over a 3 year period, it is likely that at least some staff will leave. Evidence to support this will be persuasive (e.g. historic staff turnover rates) rather than conclusive, making it difficult for the auditor to rebut management’s assumption.

Detailed feedback – question 3b)ii)

(ii) Design the audit procedures which should now be performed to gather sufficient and appropriate audit evidence

Improvement point 1 – explain WHY an audit procedure is being performed

To score a full mark for an audit procedure, students need to state WHAT is being done and explain WHY the test is being performed.

Often, students did not explain WHY, so scored only half marks

TYPICAL STUDENT ANSWER	SUGGESTED IMPROVEMENT
Inspect the contract with the builder	Inspect the contract with the builder to confirm the accuracy of the expected cost of \$1.2m

Improvement point 2 – board minutes / management representations / management discussions

Students must be highly specific about exactly WHAT they will discuss with management / confirm to board minutes / obtain management representations on.

These audit tests are suggested by almost all students in the exam, but will only score marks if they are really precise / genuinely valid!

TYPICAL STUDENT ANSWER	SUGGESTED IMPROVEMENT
Review board minutes for evidence of discussion of the regulatory issue.	Review board minutes for discussion of the size of the potential penalty, and ensure that this is consistent with the figure in the forecast – supporting accuracy.