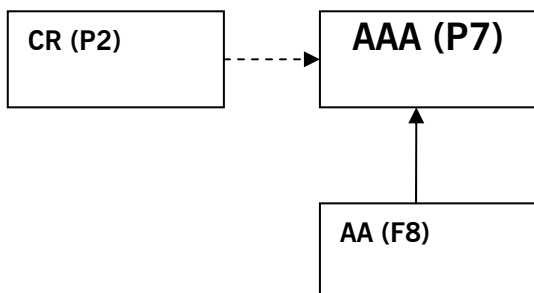


Syllabus



AIM

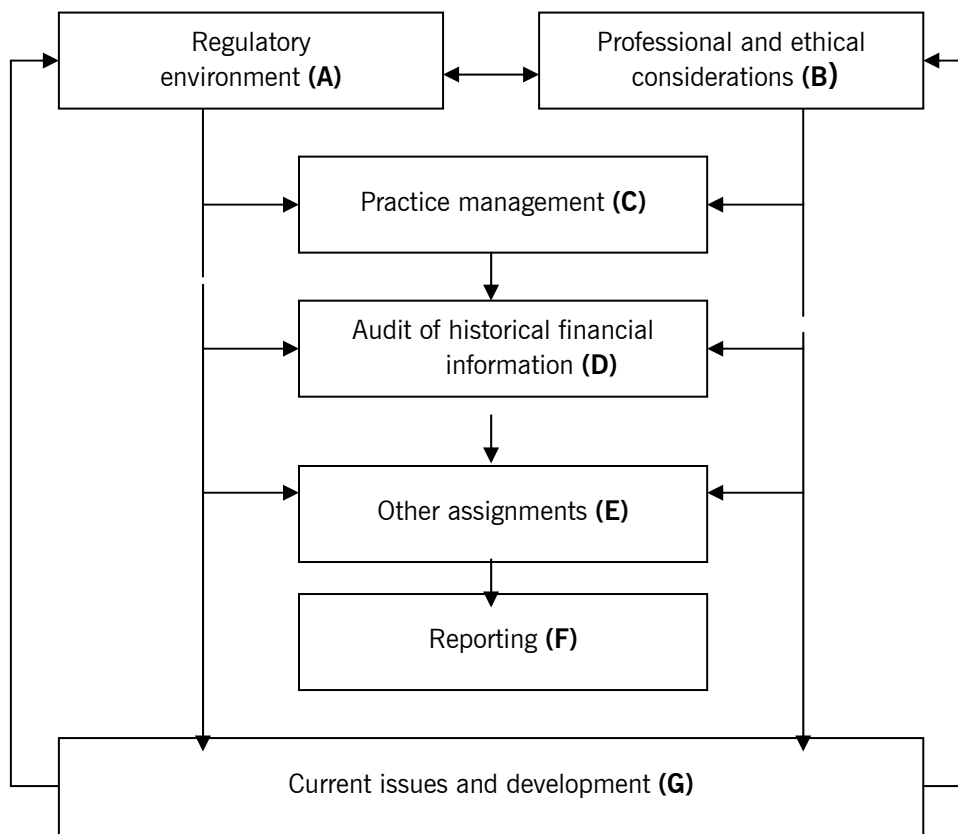
To analyse, evaluate and conclude on the assurance engagement and other audit and assurance issues in the context of best practice and current developments.

MAIN CAPABILITIES

On successful completion of this paper candidates should be able to:

- A** Recognise the legal and regulatory environment and its impact on audit and assurance practice
- B** Demonstrate the ability to work effectively on an assurance or other service engagement within a professional and ethical framework
- C** Assess and recommend appropriate quality control policies and procedures in practice management and recognise the auditor's position in relation to the acceptance and retention of professional appointments
- D** Identify and formulate the work required to meet the objectives of audit assignments and apply the International Standards on Auditing
- E** Identify and formulate the work required to meet the objectives of non-audit assignments
- F** Evaluate findings and the results of work performed and draft suitable reports on assignments
- G** Understand the current issues and developments relating to the provision of audit-related and assurance service

RELATIONAL DIAGRAM OF MAIN CAPABILITIES



RATIONALE

The Advanced Audit and Assurance syllabus is essentially divided into seven areas.

The syllabus starts with the legal and regulatory environment including money laundering, and professional and ethical considerations, including the Code of Ethics and professional liability. This then leads into procedures in practice management, including quality control and the acceptance and retention of professional engagements.

The syllabus then covers the audit of financial statements, including planning, evidence and review. It then covers other assignments including prospective financial information, and other assurance assignments, as well as the reporting of these assignments.

The final section covers current issues and developments relating to the provision of audit-related and assurance services.

DETAILED SYLLABUS

A Regulatory Environment

1. International regulatory frameworks for audit and assurance services
2. Money laundering
3. Laws and regulations

B Professional and Ethical Considerations

1. Code of Ethics for Professional Accountants
2. Fraud and error
3. Professional liability

C Practice Management

1. Quality control
2. Advertising, publicity, obtaining professional work and fees
3. Tendering

4. Professional appointments

D Audit of historical financial information

1. The audit of historical financial information including;
 - i) Planning, materiality and assessing the risk of misstatement
 - ii) Evidence
 - iii) Evaluation and review
2. Group audits

E Other assignments

1. Audit-related services
2. Assurance services
3. Prospective financial information
4. Forensic audits
5. Internal audit
6. Outsourcing

F Reporting

1. Auditor's reports
2. Reports to those charged with governance and management
3. Other reports

G Current Issues and Developments

1. Professional and ethical
2. Information technology
3. Transnational audits
4. Social and environmental auditing
5. Other current issues

APPROACH TO EXAMINING THE SYLLABUS

The examination is a three hour paper constructed in two sections. Questions in both sections will be almost entirely discursive. However, candidates will be expected, for example, to be able to assess materiality and calculate relevant ratios where appropriate.

Section A questions will be based on 'case study' type questions. That is not to say that they will be particularly long, rather that they will provide a setting within a range of topics, issues and requirements can be addressed. Different types of question will be encountered in Section B and will tend to be more focussed on specific topics, for example 'auditor's reports', 'quality control' and topics of ISAs which are not examinable in Paper F8, *Audit and Assurance*. (This does not preclude these topics from appearing in Section A). Current issues will be examined across a number of questions.

Section A: 2 compulsory questions 50-70 marks

Section B: Choice of 2 from 3 questions 30-50 marks
100

Study Guide

A REGULATORY ENVIRONMENT

1. International regulatory frameworks for audit and assurance services

- a) Explain the need for laws, regulations, standards and other guidance relating to audit, assurance and related services.^[2]
- b) Outline and explain the need for the legal and professional framework including:^[2]
 - i) public oversight to an audit and assurance practice
 - ii) the role of audit committees and impact on audit and assurance practice.

2. Money laundering

- a) Define 'money laundering'.^[1]
- b) Explain how international efforts seek to combat money laundering.^[2]
- c) Explain the scope of criminal offences of money laundering and how professional accountants may be protected from criminal and civil liability.^[2]
- d) Explain the need for ethical guidance in this area.^[2]
- e) Describe how accountants meet their obligations to help prevent and detect money laundering including record keeping and reporting of suspicion to the appropriate regulatory body.^[2]
- f) Explain the importance of customer due diligence (CDD).^[2]
- g) Recognise potentially suspicious transactions and assess their impact on reporting duties.^[2]
- h) Describe, with reasons, the basic elements of an anti-money laundering program.^[2]

3. Laws and regulations

- a) Compare and contrast the respective responsibilities of management and auditors concerning compliance with laws and

regulations in an audit of financial statements.^[2]

- b) Describe the auditors considerations of compliance with laws and regulations and plan audit procedures when possible non-compliance is discovered.^[2]
- c) Discuss how and to whom non-compliance should be reported.^[2]
- d) Recognise when withdrawal from an engagement is necessary.^[2]

B PROFESSIONAL AND ETHICAL CONSIDERATIONS

1. Code of Ethics for Professional Accountants

- a) Explain the fundamental principles and the conceptual framework approach.^[1]
- b) Identify, evaluate and respond to threats to compliance with the fundamental principles.^[3]
- c) Discuss and evaluate the effectiveness of available safeguards.^[3]
- d) Recognise and advise on conflicts in the application of fundamental principles.^[3]

2. Fraud and error

- a) Define and clearly distinguish between the terms 'error', 'irregularity', 'fraud' and 'misstatement'.^[2]
- b) Compare and contrast the respective responsibilities of management and auditors for fraud and error.^[2]
- c) Describe the matters to be considered and procedures to be carried out to investigate actual and/or potential misstatements in a given situation.^[2]
- d) Explain how, why, when and to whom fraud and error should be reported and the circumstances in which an auditor should withdraw from an engagement.^[2]

- e) Discuss the current and possible future role of auditors in preventing, detecting and reporting error and fraud.^[2]

3. Professional liability

- a) Recognise circumstances in which professional accountants may have legal liability.^[2]
- b) Describe the factors to determine whether or not an auditor is negligent in given situations.^[2]
- c) Explain the other criteria for legal liability to be recognised (including 'due professional care' and 'proximity') and apply them to given situations.^[2]
- d) Compare and contrast liability to client with liability to third parties.^[3]
- e) Evaluate the practicability and effectiveness of ways in which liability may be restricted.^[3]
- f) Discuss liability limitation agreements.^[2]
- g) Discuss and appraise the principal causes of audit failure and other factors that contribute to the 'expectation gap' (e.g. responsibilities for fraud and error).^[3]
- h) Recommend ways in which the expectation gap might be bridged.^[2]

C PRACTICE MANAGEMENT

1. Quality control

- a) Explain the principles and purpose of quality control of audit and other assurance engagements.^[1]
- b) Describe the elements of a system of quality control relevant to a given firm.^[2]
- c) Select and justify quality control procedures that are applicable to a given audit engagement.^[3]
- d) Assess whether an engagement has been planned and performed in accordance with professional standards and whether reports issued are appropriate in the circumstances.^[3]

2. Advertising, publicity, obtaining professional work and fees

- a) Recognise situations in which specified advertisements are acceptable.^[2]
- b) Discuss the restrictions on practice descriptions, the use of the ACCA logo and the names of practising firms.^[2]
- c) Discuss the extent to which reference to fees may be made in promotional material.^[2]
- d) Outline the determinants of fee-setting and justify the bases on which fees and commissions may and may not be charged for services.^[3]
- e) Discuss the ethical and other professional problems, for example, lowballing, involved in establishing and negotiating fees for a specified assignment.^[3]

3. Tendering

- a) Discuss the reasons why entities change their auditors/professional accountants.^[2]
- b) Recognise and explain the matters to be considered when a firm is invited to submit a proposal or fee quote for an audit or other professional engagement.^[2]
- c) Identify the information to be included in a proposal.^[2]

4. Professional appointments

- a) Explain the matters to be considered and the procedures that an audit firm/professional accountant should carry out before accepting a specified new client/engagement including:^[3]
 - i) client acceptance
 - ii) engagement acceptance
 - iii) establish whether the preconditions for an audit are present
 - iv) agreeing the terms of engagement.
- b) Recognise the key issues that underlie the agreement of the scope and terms of an engagement with a client.^[2]

D AUDIT OF HISTORICAL FINANCIAL INFORMATION

1(i) Planning, materiality and assessing the risk of misstatement

- a) Define materiality and performance materiality and demonstrate how it should be applied in financial reporting and auditing.^[2]
- b) Identify and explain business risks for a given assignment.^[3]
- c) Identify and explain audit risks for a given assignment.^[3]
- d) Identify and explain financial statement risks for a given assignment.^[3]
- e) Discuss and demonstrate the use of analytical procedures in the planning of an assignment.^[3]
- f) Explain how the result of planning procedures determines the relevant audit strategy.^[2]

1(ii) Evidence

- a) Identify and describe audit procedures to obtain sufficient audit evidence from identified sources.^[2]
- b) Identify and evaluate the audit evidence expected to be available to
 - i) support the financial statement assertions and accounting treatments (including fair values)
 - ii) support disclosures made in the notes to the financial statements.^[3]
- c) Apply analytical procedures to financial and non-financial data.^[2]
- d) Explain the specific audit problems and procedures concerning related parties and related party transactions.^[2]
- e) Recognise circumstances that may indicate the existence of unidentified related parties and select appropriate audit procedures.^[2]
- f) Evaluate the use of written management representations to support other audit evidence.^[2]

- g) Recognise when it is justifiable to place reliance on the work of an expert (e.g. a surveyor employed by the audit client).^[2]
- h) Assess the appropriateness and sufficiency of the work of internal auditors and the extent to which reliance can be placed on it.^[2]

1(iii) Evaluation and review

- a) Evaluate the matters (e.g. materiality, risk, relevant accounting standards, audit evidence) relating to:^[3]
 - i) inventory and construction contracts
 - ii) standard costing systems
 - iii) statement of cash flows
 - iv) changes in accounting policy
 - v) taxation (including deferred tax)
 - vi) segmental reporting
 - vii) non-current assets
 - viii) fair value
 - ix) leases
 - x) revenue recognition
 - xi) employee benefits
 - xii) government grants
 - xiii) related parties
 - xiv) earnings per share
 - xv) impairment
 - xvi) provisions, contingent liabilities and contingent assets
 - xvii) intangible assets
 - xviii) financial instruments
 - xix) investment properties
 - xx) share-based payment transactions
 - xxi) business combinations
 - xxii) assets held for sale and discontinued operations
 - xxiii) events after the end of the reporting period
 - xxiv) the effects of foreign exchange rates
 - xxv) borrowing costs.
- b) Explain the use of analytical procedures in evaluation and review.^[3]
- c) Explain how the auditor's responsibilities for corresponding figures, comparative financial statements, and 'other information', are discharged.^[3]
- d) Apply the further considerations and audit procedures relevant to initial engagements.^[2]

- e) Discuss the courses of action available to an auditor if an inconsistency or misstatement of fact exists in relation to other information.^[2]
- f) Specify audit procedures designed to identify subsequent events that may require adjustment to, or disclosure in, the financial statements of a given entity.^[2]
- g) Identify and explain indicators that the going concern basis may be in doubt and recognise mitigating factors.^[2]
- h) Recommend audit procedures, or evaluate the evidence that might be expected to be available and assess the appropriateness of the going concern basis in given situations.^[3]
- i) Assess the adequacy of disclosures in financial statements relating to going concern and explain the implications for the auditor's report with regard to the going concern basis.^[3]

2. Group audits

- a) Recognise the specific matters to be considered before accepting appointment as principal auditor to a group in a given situation.^[3]
- b) Justify the situations where a joint audit would be appropriate.^[2]
- c) Recognise the audit problems and describe audit procedures specific to a business combination, including goodwill, accounting policies, inter-company trading, the classification of investments, equity accounting for associates, and accounting for a foreign subsidiary.^[3]
- d) Identify and explain the audit risks, and necessary audit procedures relevant to the consolidation process.^[3]
- e) Identify and describe the matters to be considered and the procedures to be performed at the planning stage, when a principal auditor considers the use of the work of component auditors.^[3]
- f) Consider how the principal auditor should evaluate the audit work performed by a component auditor.^[2]

- g) Explain the implications for the auditor's report on the financial statements of an entity where the opinion on a component is qualified or otherwise modified in a given situation.^[2]

E OTHER ASSIGNMENTS

1. Audit-related services

- a) Describe the nature of audit-related services, the circumstances in which they might be required and the comparative levels of assurance provided by professional accountants and distinguish between:^[2]
 - i) audit-related services and an audit of historical financial statements
 - ii) an attestation engagement and a direct reporting engagement.^[2]
- b) Plan review engagements, for example:^[2]
 - i) a review of interim financial information
 - ii) a 'due diligence' assignment (when acquiring a company, business or other assets).
- c) Explain the importance of enquiry and analytical procedures in review engagements and apply these procedures.^[2]

2. Assurance services

- a) Describe the main categories of assurance services that audit firms can provide and assess the benefits of providing these services to management and external users.^[3]
- b) Justify a level of assurance (reasonable, high, moderate, limited, negative) for an engagement depending on the subject matter evaluated, the criteria used, the procedures applied and the quality and quantity of evidence obtained.^[3]
- c) Recognise the ways in which different types of risk (e.g. strategic, operating, information) may be identified and analysed and assess how management should respond to risk.^[3]

3. Prospective financial information

- a) Define 'prospective financial information' (PFI) and distinguish between a 'forecast', a 'projection', a 'hypothetical illustration' and a 'target'.^[1]

- b) Explain the principles of useful PFI.^[1]
- c) Identify and describe the matters to be considered before accepting a specified engagement to report on PFI.^[2]
- d) Discuss the level of assurance that the auditor may provide and explain the other factors to be considered in determining the nature, timing and extent of examination procedures.^[1]
- e) Describe examination procedures to verify forecasts and projections.^[2]
- f) Compare the content of a report on an examination of PFI with reports made in providing audit-related services.^[2]

4. Forensic audits

- a) Define the terms 'forensic accounting', 'forensic investigation' and 'forensic audit'.^[1]
- b) Describe the major applications of forensic auditing (e.g. fraud, negligence, insurance claims) and analyse the role of the forensic auditor as an expert witness.^[2]
- c) Apply the fundamental ethical principles to professional accountants engaged in forensic audit assignments.^[2]
- d) Plan a forensic audit engagement.^[2]
- e) Select investigative procedures and evaluate evidence appropriate to determining the loss in a given situation.^[3]

5. Internal audit

- a) Evaluate the potential impact of an internal audit department on the planning and performance of the external audit.^[2]
- b) Explain the benefits and potential drawbacks of outsourcing internal audit.^[2]
- c) Consider the ethical implications of the external auditor providing an internal audit service to a client.^[2]

6. Outsourcing

- a) Explain the different approaches to 'outsourcing' and compare with 'insourcing'.^[2]
- b) Discuss and conclude on the advantages and disadvantages of outsourcing finance and accounting functions.^[3]
- c) Recognise and evaluate the impact of outsourced functions on the conduct of an audit.^[3]

F REPORTING

1 Auditor's reports

- a) Critically appraise the form and content of a standard unmodified auditor's report.^[3]
- b) Recognise and evaluate the factors to be taken into account when forming an audit opinion in a given situation and justify audit opinions that are consistent with the results of audit procedures.^[3]
- c) Assess whether or not a proposed audit opinion is appropriate.^[3]
- d) Recognise when the use of an emphasis of matter paragraph and other matter paragraph would be appropriate.^[3]

2. Reports to those charged with governance and management

- a) Critically assess the quality of a report to those charged with governance and management.^[3]
- b) Advise on the content of reports to those charged with governance and management in a given situation.^[3]

3. Other reports

- a) Analyse the form and content of the professional accountant's report for an assurance engagement as compared with an auditor's report.^[2]
- b) Discuss the content of a report on examination of prospective financial information.^[2]

- c) Discuss the effectiveness of the 'negative assurance' form of reporting and evaluate situations in which it may be appropriate to express a reservation or deny a conclusion.^[3]

G CURRENT ISSUES AND DEVELOPMENTS

Discuss the relative merits and the consequences of different standpoints taken in current debates and express opinions supported by reasoned arguments.

1. Professional and ethical

- a) Discuss the relative advantages of an ethical framework and a rulebook.^[2]
- b) Identify and assess relevant to emerging ethical issues and evaluate the safeguards available.^[3]
- c) Discuss IFAC developments.^[2]

2. Information technology

- a) Describe recent trends in IT and their current and potential impact on auditors (e.g. the audit implications of 'cyberincidents' and other risks).^[2]
- b) Explain how IT may be used to assist auditors and discuss the problems that may be encountered in automating the audit process.^[2]

3. Transnational audits

- a) Define 'transnational audits' and explain the role of the Transnational Audit Committee (TAC) of IFAC.^[1]
- b) Discuss how transnational audits may differ from other audits of historical financial information (e.g. in terms of applicable financial reporting and auditing standards, listing requirements and corporate governance requirements).^[2]

4. Social and environmental auditing

- a) Plan an engagement to provide assurance on performance measures and sustainability indicators.^[2]
- b) Describe the difficulties in measuring and reporting on economic, environmental and social performance and give examples of

performance measures and sustainability indicators.^[2]

- c) Explain the auditor's main considerations in respect of social and environmental matters and how they impact on entities and their financial statements (e.g. impairment of assets, provisions and contingent liabilities).^[2]
- d) Describe substantive procedures to detect potential misstatements in respect of socio-environmental matters.^[2]
- e) Discuss the form and content of an independent verification statement (e.g. on an environmental management system (EMS) and a report to society).^[2]

5. Other current issues

- a) Explain current developments in auditing standards including the need for new and revised standards and evaluate their impact on the conduct of audits.^[3]
- b) Discuss other current legal, ethical, other professional and practical matters that affect accountants, auditors, their employers and the profession.^[3]

NOTE OF SIGNIFICANT CHANGES TO STUDY GUIDE PAPER P7 (INT)

RATIONALE FOR CHANGES TO P7

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of stakeholders such as employers, students, regulatory and advisory bodies and learning providers. As a result of the latest review, ACCA is making changes to the ACCA Qualification, effective from June 2011. With each syllabus is included a specific rationale for these changes as far as each examination syllabus and study guide is concerned.

As far as P7 (INT) is concerned, the internal audit area has been amended, and the study guide

outcomes changed and therefore is shown as an addition and deletion.

Deletions include areas that will not be examined by the current examiner, who was not involved when the original syllabus was designed.

The main areas to be added or deleted from the syllabus from that date are shown in Table 1 below:

Table 1 – Additions to P7

Please note that capability D Assignments has been split into two capabilities – D Audit of historical financial information and E Other Assignments.

Section and subject area	Syllabus content
D2a) Assignments	Audit risks and procedures relevant to consolidation
E5 Other assignments	Internal audit
E5a)	Impact of internal audit on planning and performing external audit
E5b)	Benefits and drawbacks of outsourcing internal audit
E5c)	Ethical implications of the external auditor providing internal audit service

The areas to be removed from the syllabus are shown in Table 2 below:

Table 2 – Deletions to P7

Section and subject area	Syllabus content
A Regulatory environment	1 International regulatory frameworks for audit and assurance services b)i) b)ii) c)
B Professional and ethical considerations	3 Professional liability e), h)
C Practice management	2 Advertising,, publicity, obtaining professional work and fees a)
	3 Tendering d), e), f)
	4 Professional appointments c)
D Assignments	1 The audit of historical financial information a) and b)
	1(i) Planning, materiality and assessing the risk of material misstatement a), c), i)
	1(ii) Audit evidence a) c), f)
	1(iii) Evaluation and review b)
	2 Group audits d)
	3 Audit-related service e), f), g)
	4 Assurance services c), d), e), f), g), h)
	6 Forensic audits e)
	7 Internal audit a), b), c), d)
E Reporting	1 Auditor's reports e), f), h), i)
	2 Reports to management a), d), e)

F Current issues and developments	1 Professional, ethical and corporate governance b), e), f), g)
	3 Transnational audits c), d), e), f)
	4 Social and environmental auditing a)
	5 Other current issues a), b), c)