

ASSOCIATION OF ACCOUNTING TECHNICIANS

GUIDANCE NOTES

AAT ACCOUNTING QUALIFICATION – DIPLOMA PATHWAY UNIT 17, IMPLEMENTING AUDITING PROCEDURES (IAP)

Guidance on the content of Implementing Auditing Procedures

Introduction

On completion of this unit, students should have competence in planning and performing an audit and in drafting related reports. Whilst they would not be expected to take full responsibility for an audit, students should be able to complete sections of an audit file to a point where those sections are suitable for review by their supervisor.

As background to this unit, students should understand what an audit is and which entities are required to be audited. The difference between internal and external audit must be understood.

Students should be familiar with the following sections of the Companies Act 1985:

Accounting records—sections 221 and 222.

Audit reports—sections 235, 236, and 237.

Exemptions from audit—sections 249A and 249B.

Dormant companies—section 250

Rights of auditors—sections 389A and 390.

Students should also have an understanding of the purpose of the International Standards on Auditing (UK and Ireland, IISA), and appreciate that they contain both mandatory procedures and explanatory material. Reference should be made to The Nature and Scope of Auditing Practices Board Pronouncements and to the Auditor's Code. The specific ISAs to be covered are detailed in each element's guidance notes that follow. The ISA's should not be learned by rote; the practical approach should be taught, and the mandatory requirements should become apparent through this.

As part of the general introduction to auditing, students should become familiar with the IISA relating to auditors' responsibilities:

ISA 200—*Objectives and general principles governing an audit*

ISA 250—*Consideration of law and regulations in an audit of financial statements*

ISA 570—*Going concern*

ISA 210—*Terms of audit engagement*

ISA 560—*Subsequent events*

ISA 720—*Other information in documents containing audited financial statements.*

Students should be familiar with the typical set-up of an audit file, and know the importance of audit documentation. There are many different types of audit documentation in use; students need to understand the objective of such documentation and be able to complete it. It is important that it is not seen simply as a form-filling exercise.

Throughout this unit, it should be borne in mind that auditing is subjective and it is therefore important that, where a judgement is made, some justification is given. When assessing this unit, the justification should be considered alongside the judgement.

Guidance by element

Element 17.1 Contribute to the planning of an audit assignment

Performance criteria

- i) Systems under review are ascertained and clearly recorded on appropriate working papers.
- ii) Control objectives are correctly identified.
- iii) Risks are accurately assessed.
- iv) Significant weaknesses in control are correctly recorded.
- v) Account balances to be verified and the associated risks are identified.
- vi) An appropriate sample is selected.
- vii) Confidentiality and security procedures are followed.
- viii) The proposed audit plan is formulated clearly in consultation with appropriate personnel and submitted for approval to the appropriate person.

Guidance

The purpose of this element is to enable students to demonstrate that they can apply planning procedures to specific practical situations. Students should understand the purpose of planning, what planning involves and how to document it. They should be familiar with a typical planning section of an audit file. ISA 300—*Planning the audit* should be referred to.

The definition of proper accounting records given in the Companies Act 1985 s221 should be known and understood. Students should be able to ascertain the accounting systems in any organisation through observation and enquiry, and they should be able to document those systems using a variety of techniques (narrative, flowchart, questionnaire).

In any system, students should be able to identify its risks, controls and weaknesses. They should therefore be taught the possible types of control, and they should know both the different types of risk (inherent risk, control risk and audit risk) and the factors that cause varying levels of risk. Reference should be made to ISA 315—*Obtaining an understanding of the entity and its environment and assessing the risks of material misstatement*. Based on their risk assessment and on materiality, students should be able to identify which items should be tested.

Students should understand the concept of materiality and know the factors to be taken into account when establishing the materiality level. There are many different ways of establishing materiality, and so whilst students should be able to apply a specific method, they would not be expected to design a method. Reference should be made to ISA 320—*Audit materiality*.

Having decided which items to test, students should know how to test them. Their knowledge should cover substantive tests (including analytical procedures) and tests of control. It is important that students should be able to link tests to financial statement assertions, and so whilst in practice an audit programme detailing the test would be available, they must be able to tailor the audit programme so that it is appropriate for the system of a particular company.

There are many different sampling plans. Students should understand the principles of sampling and be able to apply a sampling plan to establish a sample size, but they would not be expected to design a plan.

They should also understand the different methods of selecting a sample, and be able to select a sample so as to achieve the audit objective. ISA 530—*Audit sampling and other selective testing procedures* should be referred to.

In summary, the following ISAs should be covered in this element:

ISA 300—*The audit*

ISA 315—*Obtaining an understanding of the entity and its environment and assessing the risk of material misstatement*

ISA 320— *Audit materiality*
ISA 230— *Documentation*
ISA 220— *Quality control of historical financial information*
ISA 520— *Analytical procedures (at the planning stage)*
ISA 530— *Audit sampling and other selective testing procedures*
ISA 240— *The auditor's responsibility to consider fraud in an audit of financial statements*

Element 17.2 Contribute to the conduct of an audit assignment

Performance criteria

- i) Tests as specified in the audit plan are correctly conducted, the results properly recorded and conclusions validly drawn.
- ii) The existence, completeness, ownership, valuation and description of assets and liabilities is established and supported by appropriate evidence.
- iii) All matters of an unusual nature are identified and promptly referred to the audit supervisor.
- iv) Material and significant errors, deficiencies or other variations from standard are identified, recorded and reported to the audit supervisor.
- v) The IT environment is examined and assessed for security.
- vi) Discussions with staff operating the system to be audited are conducted in a manner that promotes professional relationships between auditing and operational staff.
- vii) Confidentiality and security procedures are followed.

Guidance

The purpose of this element is to enable students to demonstrate that they can carry out planned audit procedures so as to achieve audit objectives, and that they can identify which matters should be reported to the supervisor. An awareness of the client–auditor relationship is vital, and the candidate should demonstrate how they conduct discussions to promote professional relationships.

The work performed should be properly recorded so as to provide sufficient evidence of the tests undertaken. Working papers should show the objectives of the test, the work done and the conclusions drawn. Any errors or unusual points should be scheduled for discussion with the supervisor. Students should know which ISA relate to the work they are doing, and the working papers should provide evidence that the ISA has been complied with. It is not necessary for students to quote ISAs.

The following ISAs are particularly relevant to this element:

ISA 500— *Audit evidence*
ISA 501— *Audit evidence – additional considerations for specific items*
ISA 520— *Analytical procedures*
ISA 540— *Audit of accounting estimates*
ISA 530— *Audit sampling and other selective testing procedures*
ISA 580— *Management representations*
ISA 510— *Initial engagements - opening balances*
ISA 550— *Related parties*
ISA 520— *Analytical procedures*
ISA 610— *Considering the work of internal audit*
ISA 600— *Using the work of another auditor*
ISA 620— *Using the work of an expert.*

Students should know the approach to be taken when in an IT environment, and should understand computer-assisted audit techniques.

Element 17.3 Prepare related draft reports

Performance criteria

- i) Clear, concise draft reports relating to the audit assignment are promptly prepared, and submitted for review and approval in accordance with organisational procedures.

- ii) Conclusions are valid and supported by evidence.
- iii) Recommendations are constructive and practicable.
- iv) Preliminary conclusions and recommendations are discussed and agreed with the audit supervisor.
- v) Confidentiality and security procedures are followed.

Guidance

The purpose of this element is to enable students to demonstrate that they can prepare appropriate reports in a suitable form.

Students should be able to draft a standard audit report in accordance with ISA 700— *The independent auditor's report on a complete set of general purpose financial statements*. They should be able to suggest when a qualification is required, and the form that the qualification should take. They should also be able to identify when a report requires an explanatory paragraph.

Students should be able to draft reports regarding the weaknesses in the accounting system, setting out recommendations for improvement. Students should have an understanding of the requirements of ISA 260—*Communication of audit matters with those charged with governance*.

Assessment Strategy

The assessment strategy for the Diploma pathway is based on the following conditions:

- Units which are skills-based (such as Unit 17) will be assessed through AAT simulations. The AAT maintains that the workbased evidence demonstrated through simulated tasks is capable of providing valid evidence of competence. The approach provides a more holistic assessment of the unit standards as all the tasks are based around given scenario(s). Centrally produced simulations also allow for standardisation across candidates and centres, ensuring consistency in the assessment process.
- All performance criteria, range and knowledge and understanding will be covered **over time**, but no one simulation will cover all aspects of the unit. However, each simulation will cover most aspects. Candidates are expected to address the full standards specification in their learning, and should expect to be tested on any aspect of the unit standards. If the candidate successfully completes all aspects of a simulation then the assessor should take this as demonstration of broad competence in that unit and s/he is entitled to a unit achievement credit.

Should the candidate have succeeded in most parts of the simulation, but shown weakness, lack of clarity or incorrect response to some areas, then the assessor should carry out supplementary assessments to address the weakness. These assessments could take the form of oral or written questions, a short assignment, or a task, which specifically addresses the areas of weakness. Such supporting evidence and the task/questions set should be attached to the simulation and made available to AAT should the candidate's work be called in for inspection by us.

- If the candidate has not succeeded in a substantial part of the simulation then additional developmental guidance should be given to the candidate. They should re-sit a different simulation on the same unit when they are ready for formal assessment.
- To maintain rigorous quality assurance and standardisation across centres and candidates, the AAT does not permit the use of centre-devised simulations on the Diploma pathway.
- Simulated assessments are subject to recall by the AAT for centralised quality assurance.