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ACCA

Audit and Assurance (AA)

Exam Kit

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Audit and Assurance (AA)

EXAM KIT

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This document references IFRS® Standards and IAS® Standards, which are authored by the International Accounting Standards Board (the Board), and published in the 2024 IFRS Standards Red Book.

Features in this edition

In addition to providing a wide ranging bank of real past exam questions, we have also included in this edition:

- An analysis of all of the recently published new syllabus examinations.
- Subject specific information and advice on exam technique.
- Our recommended approach to make your revision for this particular subject as effective as possible.

  This includes step by step guidance on how best to use our Kaplan material (Study text, pocket notes and exam kit) at this stage in your studies.
- Enhanced tutorial answers packed with specific key answer tips, technical tutorial notes and exam technique tips from our experienced tutors.
- Complementary online resources including full tutor debriefs and question assistance to point you in the right direction when you get stuck.

You will find a wealth of other resources to help you with your studies on the following sites:

www.MyKaplan.co.uk

www.accaglobal.com/students/

Quality and accuracy are of the utmost importance to us so if you spot an error in any of our products, please send an email to mykaplanreporting@kaplan.com with full details.

Our Quality Co-ordinator will work with our technical team to verify the error and take action to ensure it is corrected in future editions.

INDEX TO QUESTIONS AND ANSWERS

INTRODUCTION

The majority of the questions within the kit are past ACCA exam questions, the more recent questions are labelled as such in the index. Where changes have been made to the syllabus, the old ACCA questions within this kit have been adapted to reflect the new style of exam and the new guidance. If changed in any way from the original version, this is indicated in the end column of the index below with the mark (A).

Note that

The specimen exam is included at the end of the kit.

KEY TO THE INDEX

EXAM KIT ENHANCEMENTS

We have added the following enhancements to the answers in this exam kit:

Key answer tips

All answers include key answer tips to help your understanding of each question.

Tutorial note

All answers include more tutorial notes to explain some of the technical points in more detail.

Top tutor tips

For selected questions, we walk through the answer giving guidance on how to approach the questions with helpful ‘tips from a top tutor’, together with technical tutor notes.

These answers are indicated with the ‘footsteps’ icon in the index.

ONLINE ENHANCEMENTS

Answer debrief

For selected questions, we recommend that they are to be completed in full exam conditions (i.e. properly timed in a closed book environment).

In addition to the examining team's technical answer, enhanced with key answer tips and tutorial notes in this exam kit, online you can find an answer debrief by a top tutor that:

- works through the question in full
- explains key elements of the answer
- ensures that the easy marks are obtained as quickly as possible.

These questions are indicated with the 'video' icon in the index.

Answer debriefs will be available on MyKaplan at:

www.mykaplan.co.uk

SECTION A-TYPE QUESTIONS

SECTION B-TYPE QUESTIONS

Planning and risk assessment

Internal controls

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229	Amberjack		129	447	S19/D19
230	Freesia		130	452	M19/J19
231	Camomile		133	461	S18/D18
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Substantive procedures, completion and reporting

Additional questions

ANALYSIS OF PAST EXAMS

The table below summarises the key topics that have been tested in the new syllabus published examinations to date.

	Specimen	M/J 21	S/D 21	M/J 22	S/D 22	M/J 23	S/D 23	M/J 24
Audit Framework								
Audit vs. assurance engagements								
Statutory audits								
Benefits/limitations of an audit								
Elements of assurance								
Corporate governance					✓	✓		
Audit committee								
Ethical threats	✓		✓					
Confidentiality and conflicts of interest								
Limited assurance engagements	✓							
Planning and risk assessment								
Acceptance		✓		✓				
Engagement letter					✓			
Quality management						✓		✓
Professional scepticism		✓						
Audit risk	✓	✓	✓	✓	✓	✓	✓	✓
Analytical procedures	✓			✓	✓			
Materiality								
Understanding the entity							✓	
Fraud & error			✓				✓	
Laws & regulations								✓
Benefits of planning								
Audit strategy & plan	✓							
Interim & final	✓							
Audit documentation								

	Specimen	M/J 21	S/D 21	M/J 22	S/D 22	M/J 23	S/D 23	M/J 24
Internal control								
Components					✓			
Limitations of controls			✓					
Systems/tests of controls:								
– Revenue	✓		✓	✓		✓		
– Purchases	✓		✓			✓		✓
– Payroll		✓		✓	✓	✓		✓
– Non-current assets	✓		✓					✓
– Inventory			✓					
– Cash				✓				
Systems documentation	✓	✓						
IT controls	✓						✓	
Internal Audit								
Scope/limitations	✓							
Contrast with external audit	✓							
Outsourcing internal audit								
IA assignments								
Audit Evidence								
ISA 500 Audit procedures								
Assertions	✓							
Audit sampling								
Sufficient appropriate evidence	✓							
Use of experts	✓							
Use of internal audit								
Service organisations								
Not-for-profit organisation								
Automated tools and techniques								
The audit of specific items:								
– Revenue/income				✓	✓		✓	

	Specimen	M/J 21	S/D 21	M/J 22	S/D 22	M/J 23	S/D 23	M/J 24
– Purchases								
– Payroll		✓					✓	
– Tangible non-current assets	✓		✓			✓		✓
– Research & development			✓					
– Trade receivables	✓	✓	✓	✓			✓	
– Inventory		✓		✓			✓	✓
– Bank					✓	✓	✓	
– Trade payables/accruals					✓			✓
– Provisions	✓	✓	✓		✓	✓	✓	✓
– Equity				✓				
– Directors' remuneration								
– Redundancy costs								
Completion & reporting								
Misstatements	✓							
Final review								
Subsequent events	✓					✓		
Going concern	✓							
Written representations								
Auditor's reports/opinions	✓	✓			✓		✓	✓
Key audit matters			✓	✓				
Reporting to those charged with governance								

EXAM TECHNIQUE

GENERAL COMMENTS

- Read the questions and examination requirements **carefully**.
- **Divide the time** you spend on questions in proportion to the marks on offer:
  - there are 1.8 minutes available per mark in the computer based examinations so a 20 mark question should be completed in approximately 36 minutes
  - within that, try to allow time at the end of each question to review your answer and address any obvious issues

  Whatever happens, always keep your eye on the clock and **do not over run on any part of any question.**
- **Objective test case questions:**
  - Don't leave any questions unanswered. If in doubt, guess.
  - Try and identify the correct answer.
  - If you can't identify the correct answer, try and rule out the wrong answers.
- Spend the last **five minutes** of the examination:
  - reading through your answers, and
  - **making any additions or corrections**.
- If you **get completely stuck**, flag the question for review and **return to it later.**
- Stick to the question and **tailor your answer** to what you are asked.
  - Pay particular attention to the verbs in the question.
  - Apply your comments to the scenario.
- If you do not understand what a question is asking, **state your assumptions**.

  Even if you do not answer in precisely the way the examiner hoped, you may be given some credit, if your assumptions are reasonable.
- You should do everything you can to make things easy for the marker.

  The marker will find it easier to identify the points you have made if your **answers are understandable, well-spaced out and clearly referenced to the requirement being answered**.

OBJECTIVE TEST QUESTIONS

- Decide whether you want to attempt these at the start of the exam or at the end.
- No credit for working will be given in these questions, the answers will either be correct (2 marks) or incorrect (0 marks).
- Read the question carefully, as any alternative answer choices will be given based on common mistakes that could be made in attempting the question.
- If a question looks particularly difficult or time consuming, then miss it out first time through (make sure you flag it) and come back to it later.

CONSTRUCTED RESPONSE (LONG) QUESTIONS

- **Written elements**:

  Your answer should:

  – Have a clear structure

  – Be concise: get to the point!

- **Reports, memos and other documents**:

  Some questions ask you to present your answer in the form of a report, a memo, a letter or other document.

  Make sure that you use the correct format – there could be easy marks to gain here.

COMPUTER-BASED EXAMS – ADDITIONAL TIPS

- Do not attempt a CBE until you have **completed all study material** relating to it.
- On the ACCA website there is a CBE demonstration. It is **ESSENTIAL** that you attempt this before your real CBE. You will become familiar with how to move around the CBE screens and the way that questions are formatted, increasing your confidence and speed in the actual exam.
- Be sure you understand how to use the **software** before you start the exam. If in doubt, ask the assessment centre staff to explain it to you.
- Questions are **displayed on the screen** and answers are entered using keyboard and mouse.
- In addition to the traditional multiple choice question type, CBEs will also contain other types of questions, such as multiple response (select two or more), drop down list, drag and drop, hot spots and hot areas.
- You need to be sure you **know how to answer questions** of these types before you sit the exam, through practice.

SUBJECT SPECIFIC INFORMATION

THE EXAM

FORMAT OF THE EXAM

The exam will be in **TWO** sections

All questions are compulsory

		Number of marks
Section A:	3 objective test cases	
	5 questions worth 2 marks per case	30
Section B:	3 constructed response questions	
	2 × 20 mark questions (mainly scenario based)	40
	1 × 30 mark question (mainly scenario based)	30
		100

Time allowed: 3 hours.

In the AA exam the 'current' date will be 1 July 20X5. Year-end dates will then be flexed around this depending on the nature of the question. For example, a question set at the planning stage of the audit may have a year end of 30 June 20X5 or 31 July 20X5. A question set at the completion stage of the audit may have a year end of 31 January 20X5 or 31 March 20X5.

PASS MARK

The pass mark for all ACCA Qualification exams is 50%.

APPROACH TO THIS EXAM

Audit and Assurance is a computer based exam.

Any part of the syllabus can be tested in any section.

Section A

- The objective test case questions will be based around a short scenario and you will have to choose the correct answer(s) from the options given.
- You should begin by reading the OT questions that relate to the case, so that when you read through the information for the first time, you know what is required.
- Each OT question is worth two marks. Therefore you have 18 minutes (1.8 minutes per mark) to answer the five OT questions relating to each case.
- It is likely that all of the cases will take the same length of time to answer, although some of the OT questions within a case may be quicker than other OT questions within that same case.
- Work steadily. Rushing leads to careless mistakes and the OT questions are designed to include 'plausible distractors' i.e. answers which result from careless mistakes.

- If you don't know the answer, eliminate those options you know are incorrect and see if the answer becomes more obvious.
- After you have eliminated the options that you know to be wrong, if you are still unsure, guess.

Section B

- The constructed response questions will require a written response rather than being OT questions.
- Each question will contain some knowledge-based requirements. Knowledge of ISAs may be required in this section.
- The other requirements will require application of knowledge to the scenario provided. For these requirements it is important you relate your answers to the scenario rather than just regurgitate rote-learned knowledge.
- For the scenario based questions it is important to read the information carefully and only use this information to generate your answers. There are unlikely to be any marks awarded to students creating their own scenario and generating answers from that.
- **For each question**, read the requirements and then the detail of the question carefully.

  Always read the requirement first as this enables you to **focus on the detail of the question with the specific task in mind**.
- Take notice of the format required (e.g. letter, memo, notes) and identify the recipient of the answer . You need to do this to judge the level of sophistication required in your answer and whether the use of a formal reply or informal bullet points would be satisfactory.
- There are times when you are instructed to use tables to present your answer. This is the case when you are asked to link answers together. Pre-formatted tables will usually be set up in the workspace for you to use.
- Spot the easy marks to be gained in a question. Make sure that you do these parts first when you tackle the question.
- **Highlight questions for review if you are not sure and want to check your answers before you end your exam**.

The three questions in section B will usually focus on planning and audit risk assessment, internal controls and audit evidence.

Audit risks

Candidates need to explain audit risks by stating the specific area of the financial statements impacted (e.g. PPE, inventory, revenue, etc.) with an assertion (for example cut-off, valuation etc.), or, a reference to over/under/misstated, or a reference to inherent/ control/ detection risk. Credit is only awarded for misstated when it is clear that a balance could be either over or understated. Credit is not given for misstated if it is clear that a balance could only be overstated or could only be understated.

Control deficiencies and recommendations

Internal control deficiency questions typically require internal control deficiencies to be identified (½ mark each), explained (½ mark each) which must cover the implication of the deficiency to the company and a relevant recommendation to address the deficiency (1 mark). Candidates are required to explain the implication to the business to be awarded credit, for example that 'loss of revenue or loss of customer goodwill'. Recommendations must be described in sufficient detail.

Direct controls and tests of control

Questions typically require the direct control to be identified (½ mark each), explained as to why it is a direct control (½ mark each) and a test of control provided (1 mark). To explain why the control is a direct control, candidates must explain how the control will prevent or detect and correct a misstatement.

Audit evidence

Audit procedures must be clearly described. A well described substantive procedure will clearly detail the source of the evidence, clearly detail the purpose of the test, and state exactly 'how' the procedure should be performed.

All sections

- Don't skip parts of the syllabus. The AA exam has 18 different questions, each with multiple requirements, so the examination can cover a very broad selection of the syllabus each sitting.
- Practice plenty of questions to improve your ability to apply the techniques.
- Spend the last five minutes reading through your answers and making any additions or corrections.

Always keep your eye on the clock and do not over run on any part of any question!

DETAILED SYLLABUS

The detailed syllabus and study guide written by the ACCA can be found at:

https://www.accaglobal.com/gb/en/student/exam-support-resources/fundamentals-exams-study-resources/f8/syllabus-study-guide.html

KAPLAN'S RECOMMENDED REVISION APPROACH

QUESTION PRACTICE IS THE KEY TO SUCCESS

Success in professional examinations relies upon you acquiring a firm grasp of the required knowledge at the tuition phase. In order to be able to do the questions, knowledge is essential.

However, the difference between success and failure often hinges on your exam technique on the day and making the most of the revision phase of your studies.

The **Kaplan study text** is the starting point, designed to provide the underpinning knowledge to tackle all questions. However, in the revision phase, pouring over text books is not the answer.

Kaplan online tests help you consolidate your knowledge and understanding and are a useful tool to check whether you can remember key topic areas.

Kaplan pocket notes are designed to help you quickly revise a topic area, however you then need to practice questions. There is a need to progress to full exam standard questions as soon as possible, and to tie your exam technique and technical knowledge together.

The importance of question practice cannot be over-emphasised.

The recommended approach below is designed by expert tutors in the field, in conjunction with their knowledge of the examiner and their recent real exams.

The approach taken for the applied skills exams is to revise by topic area. However, with the professional stage exams, a multi-topic approach is required to answer the scenario based questions.

You need to practice as many questions as possible in the time you have left.

OUR AIM

Our aim is to get you to the stage where you can attempt exam standard questions confidently, to time, in a closed book environment, with no supplementary help (i.e. to simulate the real examination experience).

Practising your exam technique on real past examination questions, in timed conditions, is also vitally important for you to assess your progress and identify areas of weakness that may need more attention in the final run up to the examination.

In order to achieve this we recognise that initially you may feel the need to practice some questions with open book help and exceed the required time.

The approach below shows you which questions you should use to build up to coping with exam standard question practice, and references to the sources of information available should you need to revisit a topic area in more detail.

Remember that in the real examination, all you have to do is:

- attempt all questions required by the exam
- only spend the allotted time on each question, and
- get them at least 50% right!

Try and practice this approach on every question you attempt from now to the real exam.

EXAMINER COMMENTS

We have included the examiners comments to the specific new syllabus examination questions in this kit for you to see the main pitfalls that students fall into with regard to technical content.

However, too many times in the general section of the report, the examiner comments that students had failed due to:

- lack of knowledge or exam preparation
- candidates not adequately explaining audit risks
- candidates not clearly understanding/explaining the implication of control deficiencies
- audit procedures not clearly described
- substantive procedures being too generic and not related to the scenario given
- candidates re-writing the question requirement at the start of each question which is unnecessary and not an efficient use of time.

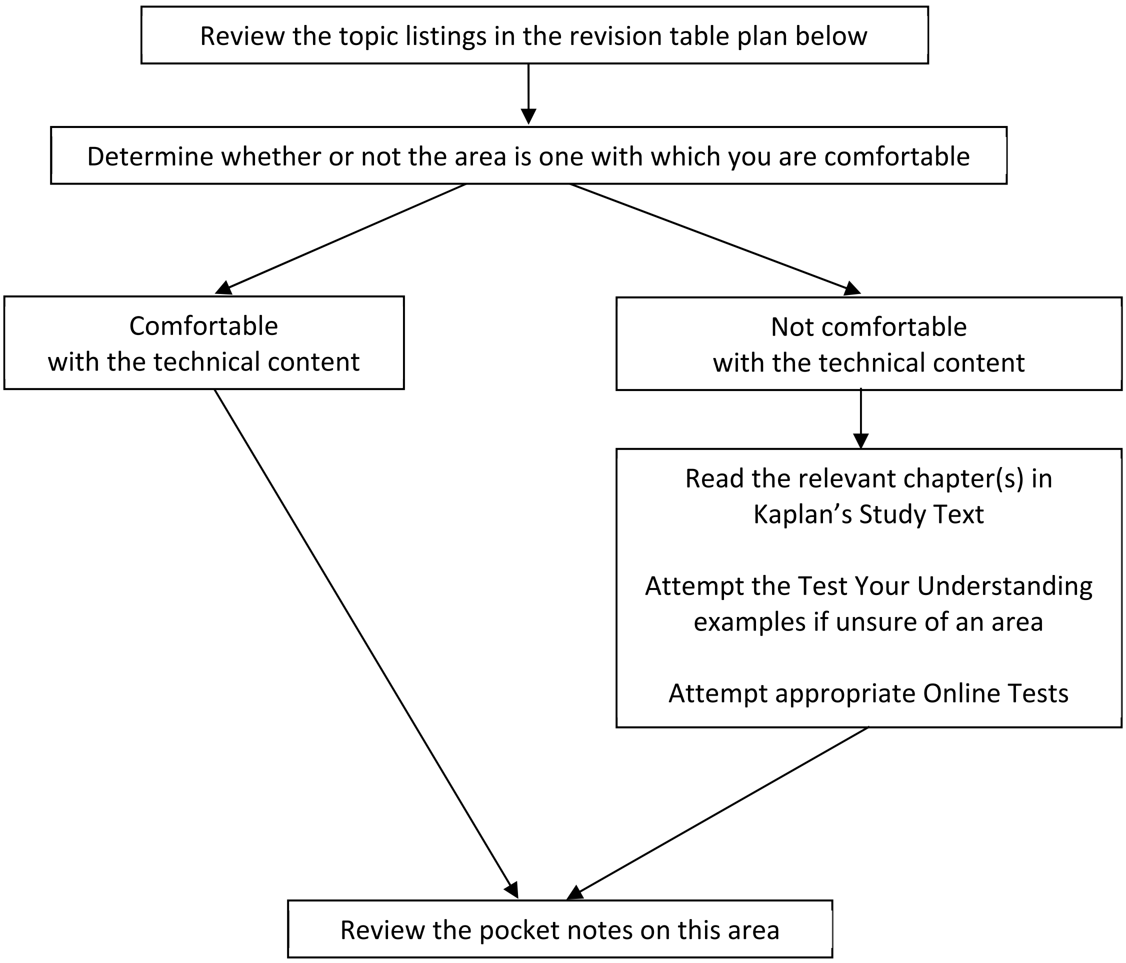
Good exam technique is vital.

ACCA SUPPORT

For additional support with your studies please also refer to the ACCA Global website.

THE KAPLAN AA REVISION PLAN

Stage 1: Assess areas of strengths and weaknesses



Stage 2: Practice questions

Follow the order of revision of topics as recommended in the revision table plan below and attempt the questions in the order suggested.

Try to avoid referring to text books and notes and the model answer until you have completed your attempt.

Try to answer the question in the allotted time.

Review your attempt with the model answer and assess how much of the answer you achieved in the allocated exam time.

Fill in the self-assessment box below and decide on your best course of action.

Comfortable with question attempt

Only revisit when comfortable with questions on all topic areas

Not comfortable with question attempts

Focus on these areas by:

- Reworking test your understanding examples in Kaplan's Study Text
- Revisiting the technical content from Kaplan's pocket notes
- Working any remaining questions on that area in the exam kit
- Reattempting an exam standard question in that area, on a timed, closed book basis

Note that:

The 'footsteps questions' give guidance on exam techniques and how you should have approached the question.

Stage 3: Final pre-exam revision

We recommend that you **attempt at least one mock examination** containing a set of previously unseen exam standard questions.

It is important that you get a feel for the breadth of coverage of a real exam without advanced knowledge of the topic areas covered – just as you will expect to see on the real exam day.

Ideally this mock should be sat in timed, closed book, real exam conditions and could be:

- a mock examination offered by your tuition provider, and/or
- the specimen exam in the back of this exam kit, and/or
- the last real examination.

KAPLAN'S DETAILED REVISION PLAN

In addition to the questions below, you should practise a selection of OT case questions from Section A of the exam kit.

Topics	Study Text (and Pocket Note) Chapter	Questions to attempt	Tutor guidance	Date attempted	Self-assessment
1 Audit framework and regulation	1, 2, 3, 4	Green Peach Hart Hurling Freesia Orange Financials OT cases 1 – 50	You must also be able to discuss the purpose of assurance and the levels of assurance offered by accountants. Make sure that you can define the fundamental principles of the Code of Ethics and that you practice applying the concepts to specific scenarios. You need to be able to identify and explain the main requirements of corporate governance regulations (e.g. UK Corporate Governance Code) and be able to identify when a company is not compliant with best practice.		
2 Planning and risk assessment	5 & 6	Green Knight Esk Peach Corley Appliances Hart Scarlet Harlem Peony Darjeeling	Audit risk is a vital concept. You need to be able to: discuss what it is, including materiality; perform risk assessment for a client; and discuss its impact on audit strategy.		

Topics	Study Text (and Pocket Note) Chapter	Questions to attempt	Tutor guidance	Date attempted	Self-assessment
3 Internal controls	8, 9	Francisco Silver Whittaker Pomeranian Castle Courier Swift Amberjack Freesia Camomile Raspberry Comet	You need to know how a simple financial control system (e.g. sales, purchases, payroll etc.) operates. You may be asked to identify deficiencies in control systems and provide recommendations. You may also be asked to explain the direct controls within a system and say how the auditor should test these controls.		
4 Audit evidence	7 & 10	Cookit Latte Heron Pacific Spinach Danube Purrfect Sagittarii Encore Spadefish Airsoft	It is vital that you are able to identify **specifically** what procedures are required (e.g. tests of control, analytical procedures) and what assertions are being tested (e.g. completeness, existence, accuracy) for a particular balance or issue given.		

Topics	Study Text (and Pocket Note) Chapter	Questions to attempt	Tutor guidance	Date attempted	Self-assessment
5 Review and reporting	11 & 12	Spinach Encore Spadefish Hyacinth Jasmine Dashing Andromeda Violet & Co OT cases 141 – 200	There are a wide range of issues that need to be considered at the completion stage of an audit. Typical examples include: subsequent events, going concern, written representations and evaluation of misstatements. It is important that you are able to assess a scenario and identify how it might impact upon the auditor's report and opinion. You also need to be able to discuss the content and purpose of the sections of an auditor's report. In addition, you should be able to identify matters which should be reported to those charged with governance.		

Section 1

OBJECTIVE TEST CASE QUESTIONS – SECTION A

AUDIT FRAMEWORK

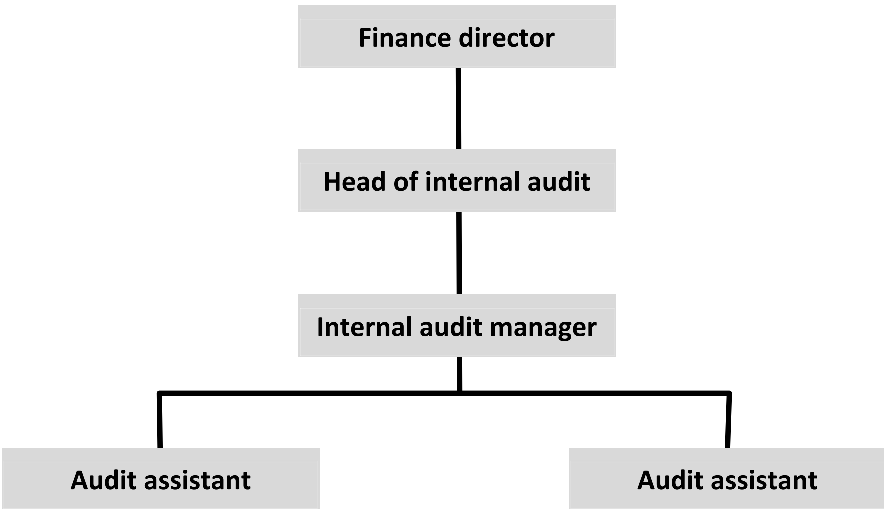
The following scenario relates to questions 1 – 5

The board of directors of Sistar Co are concerned that they are not currently applying best practice in terms of corporate governance and are seeking to make improvements.

The company currently has three non-executive directors (NEDs) on the board, who are paid a fee which changes annually depending on company performance. The NEDs all sit on the audit, nomination and remuneration committees. There is currently no reference to the work of these committees in the annual report.

At present, Sistar Co does not have an internal audit function but the directors are establishing a team which will be responsible for a range of internal audit assignments.

The following is the current proposed structure for the internal audit (IA) department



The only role still to be filled is the Head of internal audit. There are two potential candidates: Paul Belling a consultant who helped design and implement the company's current control system, and Maria Marquez who is currently an audit manager at Rossi & Bell, an audit firm which has never been used by Sistar Co.

Out of the other three members of the proposed IA department, two of them have moved from other departments in Sistar Co and one of the audit assistants has audit experience.

1 **Which of the following should be included in the annual report regarding the work of the audit committee?**

- ○ Responsibility for preparing the annual report and financial statements
- ○ Significant issues considered relating to the financial statements
- ○ A description of the principal risks the company faces
- ○ The process used to make appointments to the board **(2 marks)**

2 **Which of the following options correctly describes the deficiency relating to NEDs' remuneration and makes a valid recommendation for improvement?**

	Deficiency	**Recommendation**
○	Compromises NED independence	NEDs should be remunerated on the same basis as the executive team
○	Compromises the motivation of NEDs	NEDs' remuneration should be tied to profit targets
○	Compromises NED independence	NEDs' remuneration should be a set amount based on time committed
○	Compromises the motivation of NEDs	NEDs' remuneration should be linked to individual performance

(2 marks)

3 The board is in the final stages of establishing the IA department.

Select one option from each column which provides appropriate recommendations to improve the effectiveness and independence of the IA department.

Reports to	**Head of IA**	**Remaining staff members**
Finance director	Maria Marquez	Appoint more senior staff with audit experience
Audit committee	Paul Belling	No changes needed
Chief executive		All staff should be new to the company

(2 marks)

4 The board has started to compile a list of tasks for the IA department to carry out once it is up and running. It has been agreed that the first assignment to be completed will be for IA to review Sistar Co's processes over asset expenditure to verify if the right items are purchased at an appropriate time and competitive price.

What type of internal audit assignment does this represent?

- ○ A value for money audit
- ○ A management audit
- ○ A financial audit
- ○ An IT audit **(2 marks)**

5 When deciding on the role of the IA department in undertaking operational audits, which TWO of the following should the team NOT be involved in?

- ○ Observing procedures carried out by Sistar Co's staff
- ○ Reperforming procedures documented in procedures manuals
- ○ Designing and implementing internal control procedures to address deficiencies
- ○ Reporting findings directly to the board of directors
- ○ Authorising transactions and performing reconciliations **(2 marks)**

The following scenario relates to questions 6 – 10

You are an audit manager in Bark & Co and have been assigned to the audit of Foliage Co for the first time this year. Foliage Co is a listed company which specialises in manufacturing musical instruments. You will be taking over from Kim Baum, the audit manager who has been in charge of the audit for the last three years. Kim has just announced that he is leaving Bark & Co to join Foliage Co as the financial controller. Kim has recently completed the planning for the current year audit in preparation for the final audit which is due to commence next month.

Jane Leaf has been the audit engagement partner since Foliage Co became an audit client almost eight years ago. As she has completed seven years as the audit engagement partner, Jane has recently been rotated off the audit engagement. The new audit engagement partner, Chang Petiole, has suggested that in order to maintain a close relationship with Foliage Co, Jane Leaf should undertake the role of Engagement Quality Reviewer this year.

The total fees received by Bark & Co from Foliage Co in respect of all services provided in the last year amounted to 16% of the firm's total fee income. The current year's total fee income for audit, tax and other audit-related services is expected to be greater than last year.

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6 What is the most appropriate response to the suggestion that Jane Leaf takes on the role of Engagement Quality Reviewer?

- ○ Jane Leaf could take the review role immediately
- ○ Jane Leaf could take the review role immediately but additional safeguards will be required
- ○ Jane Leaf should not serve as the Engagement Quality Reviewer for a period of at least five years
- ○ Bark & Co will need to consider resigning as auditor of Foliage Co **(2 marks)**

7 Which of the following is the LEAST appropriate response in relation to fee income received by Bark & Co from Foliage Co?

- ○ Bark & Co should assess whether audit and non-audit fees would represent more than 15% of gross practice income for two consecutive years
- ○ If the recurring fees are likely to exceed 15% of annual practice income this year Bark will need to resign as auditors of Foliage Co
- ○ If the recurring fees are likely to exceed 15% of annual practice income this year, additional consideration should be given as to whether the taxation and audit-related services should be undertaken by the firm
- ○ If the fees do exceed 15% this should be disclosed to those charged with governance at Foliage Co **(2 marks)**

8 What action should Kim Baum have taken when the possibility of employment with Foliage Co arose?

- ○ Kim should have notified Bark & Co of the potential employment so he could be removed from the audit team
- ○ Kim should have declined the offer of employment
- ○ Kim should not have applied for employment with an audit client while employed by Bark & Co
- ○ Kim should have asked for permission from Bark & Co before applying for a job with Foliage Co **(2 marks)**

9 Which ethical threat will be created when Kim Baum commences employment with the client and what action should be taken to manage the threat?

	Threat	**Action**
A	Intimidation	The manager should not be allowed to take the role of financial controller
B	Familiarity	The composition of the audit team must be reviewed and changed as appropriate
C	Confidentiality	The manager should not be allowed to take the role of financial controller
D	Self-review	The composition of the audit team must be reviewed and changed as appropriate

- ○ Option A
- ○ Option B
- ○ Option C
- ○ Option D **(2 marks)**

10 Select whether the following statements describe a rulebook approach or a conceptual framework approach to ethics.

Clearly defined laws for the auditor to follow	**Rule book approach**	**Conceptual framework approach**
Useful in a dynamic environment	**Rule book approach**	**Conceptual framework approach**
A set of guidelines with which the auditor uses judgement to apply to specific circumstances	**Rule book approach**	**Conceptual framework approach**
Easy to know what is allowed and not allowed	**Rule book approach**	**Conceptual framework approach**

(2 marks)

The following scenario relates to questions 11 – 15

You are an audit manager in Miranda & Co and you are planning the audit of Milberry Co which manufactures luxury handbags and other fashion accessories. Milberry Co has been an audit client of your firm for four years.

From a review of the correspondence file, you note that the audit engagement partner and the finance director have known each other socially for many years and in fact went on holiday together last summer with their families. As a result of this friendship, the partner has not yet spoken to the client about the fee for last year's audit, 20% of which is still outstanding.

The financial controller of Milberry Co was appointed two months ago. Prior to this appointment the financial controller was an audit senior at Miranda & Co and was a member of the audit team for Milberry Co.

Employees of Milberry Co are entitled to purchase handbags at a discount of 40% and during the planning meeting with the finance director, you and your audit team are offered the same level of staff discount.

The finance director has asked if your firm will prepare the company's tax return and provide tax advice to minimise the amount of tax payable.

11 Select which threat to objectivity is created by the information obtained from the review of the correspondence file.

The partner and the finance director have known each other socially for many years	**Advocacy**	**Familiarity**	**Self-interest**
40% of the fee for last year's audit is still outstanding	**Advocacy**	**Familiarity**	**Self-interest**

(2 marks)

12 Which is the MOST appropriate response to the outstanding fees from Milberry Co?

- ○ The auditor should resign from the client
- ○ The auditor should report the client to the ACCA
- ○ The auditor can continue working for the client but should ensure that the audit firm's credit control department are informed of the outstanding fees
- ○ The auditor's report for this year should not be issued until the fees have been paid

(2 marks)