



JUNE 2006 – STUDY GUIDE  
CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION



Paper 8 (INT)  
Implementing Audit  
Procedures

# Introduction

This booklet contains the Study Guide for Paper 8 (INT): Implementing Audit Procedures.

The Study Guide is designed to help you plan your studies and to provide more detailed interpretation of the syllabus for ACCA's Certified Accounting Technician examinations. It contains both the Syllabus and the Study Sessions for the paper, which you can follow when preparing for the examination.

The Syllabus outlines the content of the paper and how that content is examined. The Study Sessions take the syllabus and expand it into teaching or study sessions of similar length. These sessions indicate what the examiner expects of candidates for each part of the syllabus, and therefore gives you guidance in the skills you are expected to demonstrate in the examinations. The time to complete each session will vary according to your individual capabilities and the time you have available to study. Tuition providers offering face-to-face tuition are recommended to design courses with a minimum of two hours tuition per study session. However, repeated coverage of the material is vital to ensure your understanding and recall of the subject. Be sure to practice past examination questions to consolidate your knowledge and read your *student accountant* magazine regularly.

If you have any queries concerning the study guide, please direct them to:

Education Department  
ACCA 29 Lincoln's Inn Fields London WC2A 3EE United Kingdom  
tel: +44 (0)20 7059 5833 fax: +44 (0)20 7059 5968  
e-mail: [info@accaglobal.com](mailto:info@accaglobal.com)

Additional information can be accessed on the ACCA website at:  
[www.accaglobal.com](http://www.accaglobal.com)

© The Association of Chartered Certified Accountants  
September 2005

## **ABOUT ACCA**

ACCA is the largest and fastest-growing international accountancy body, with over 345,000 students and members in 170 countries. ACCA's reputation is grounded in 100 years of providing quality accounting and financial qualifications. With a predominantly young and dynamic membership, ACCA aims to create value for the profession and the business community.

# Implementing Audit Procedures (INT)

## AIMS

To develop knowledge and understanding of the audit process from the planning stage through to the reporting stage and the techniques used in the conduct of internal and external audits.

## OBJECTIVES

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

- explain the rules of professional conduct relating to the ethics of integrity, objectivity, independence and confidentiality and undertake audit procedures accordingly
- identify control objectives and weaknesses for an accounting system under review
- assess audit risks, produce an audit plan and design appropriate audit procedures
- carry out appropriate audit procedures in accordance with an audit plan on the basis of a validly selected sample
- draw valid conclusions from the results of audit tests
- prepare draft reports relating to an audit assignment.

## POSITION OF THE PAPER IN THE OVERALL SYLLABUS

Paper 8 requires the knowledge and understanding from Paper 1, *Recording Financial Transactions* and Paper 3, *Maintaining Financial Records*, to provide a basic understanding of the nature and objectives of an audit and general audit practice. Candidates will also be expected to be familiar with Paper 6, *Drafting Financial Statements*.

## SYLLABUS CONTENT

### 1 The business environment

- (a) The nature of accounting records, audit and the audit report
- (b) Requirements for becoming an auditor
- (c) Duties of an auditor
- (d) Responsibilities of auditors
- (e) Fraud and error
  - (i) liability to clients
  - (ii) liability to third parties

### 2 The audit framework

- (a) External audit and internal audit
- (b) Regulatory framework of auditing
  - (i) auditing standards
  - (ii) requirements of professional bodies
- (c) The audit engagement process

### 3 Audit personnel

- (a) The audit team
- (b) Liaison with client staff
- (c) Liaison with third parties
  - (i) experts
  - (ii) internal audit

### 4 Audit planning

- (a) The nature of an audit plan and programme
- (b) Knowledge of the business
- (c) Risk
- (d) Materiality
- (e) Documentation
- (f) Audit planning meeting

### 5 Accounting systems and controls

- (a) The nature of accounting systems
- (b) General principles of control
- (c) Techniques to record accounting systems
  - (i) narrative notes
  - (ii) flowcharts
- (d) Techniques to evaluate accounting systems
  - (i) internal control questionnaires
  - (ii) internal control evaluation questionnaires
  - (iii) checklists
- (e) Major control cycles (manual and computerised)
  - (i) income (sales)
  - (ii) expenditure (purchases / inventory / non-current assets / payroll / expenses)
- (f) Tests of control
- (g) Reporting control weaknesses

# Implementing Audit Procedures (INT)

## 6 Audit evidence and sampling

- (a) Financial statement assertions
- (b) Audit evidence and procedures
- (c) Verification techniques – physical examination, reperformance, third party confirmation, documentary evidence, vouching and analytical review
- (d) Audit sampling
- (e) Types of testing – tests of control and substantive testing
- (f) Computer assisted audit techniques
- (g) Audit of balance sheet items – existence, completeness, ownership, valuation and disclosure

## 7 Audit completion

- (a) Audit review
  - (i) events after the balance sheet date
  - (ii) going concern
  - (iii) opening balances and comparatives
- (b) Analytical procedures
- (c) Recording significant and material errors
- (d) Review by senior audit staff
- (e) Report of audit points arising (report to partner)
- (f) Letter of representation

## 8 Audit report

- (a) The standard audit report
- (b) Qualifications in audit reports

### EXCLUDED TOPICS

The following topics are specifically excluded from Paper 8:

- group audits
- corporate governance
- detailed understanding of audit requirements relating to:
  - fraud
  - laws and regulations
  - quality control
  - related parties
  - service organisations
  - reports to those charged with governance
  - reporting to regulators in the financial sector.

### KEY AREAS OF THE SYLLABUS

The key topic areas are as follows:

- controls
- audit planning
- practical application of audit techniques
- preparing draft reports.

### APPROACH TO EXAMINING THE SYLLABUS

The examination is a three-hour written paper. The paper consists of four compulsory questions of 25 marks each.

### ADDITIONAL INFORMATION

Accounting and auditing standards will not be examined until six months after they have been published. The cut off date for the June examination is 30 November preceding the June examination. The cut off date for the December examination is 31 May preceding the December examination.

### RELEVANT TEXTS

There are a number of sources from which you can obtain a series of materials written for the ACCA CAT examinations. These are listed below:

ACCA's approved publishers:

#### BPP Professional Education

Contact number: +44(0)20 8740 2222

Website: [www.bpp.com](http://www.bpp.com)

#### Kaplan Publishing Foulks Lynch

Contact number: +44(0)118 989 0629

Website: [www.kaplanfoulkslynch.com](http://www.kaplanfoulkslynch.com)

Additional reading:

Accountancy Tuition Centre (ATC)

International

Contact number: +44(0)141 880 6469

Website: [www.atc-global.com](http://www.atc-global.com)

Wider reading is also desirable, especially regular study of relevant articles in ACCA's *student accountant* magazine.

# Implementing Audit Procedures (INT)

## STUDY SESSIONS

### 1 The purpose and scope of an external audit and the audit framework

- (a) Explain the purpose and scope of an external audit
- (b) Outline the requirements governing the appointment and removal of auditors
- (c) Outline the duties and responsibilities of auditors
- (d) Explain the scope of International Standards on Auditing
- (e) Outline the fundamental principles of independent auditing

### 2 Rules of professional conduct and professional ethics

- (a) Discuss the fundamental principles of the Code of ethics within the Rules of Professional Conduct of ACCA
- (b) Discuss the detailed requirements of, and illustrate the application of professional ethics in the context of auditor independence, objectivity and integrity as set out in ACCA's Code of ethics
- (c) Describe the auditor's responsibility with regard to confidentiality as set out in ACCA's Code of ethics

### 3 Internal audit

- (a) Explain the purpose and scope of internal audit
- (b) Compare and contrast the roles of the internal audit function and the external audit function with regard to the detection of fraud and error
- (c) Identify the factors that external auditors should consider when evaluating the work of internal auditors

### 4 & 5 True and fair view, materiality, the auditors' report

- (a) Explain the concept of a true and fair view
- (b) Explain the concept of materiality and discuss the factors to be considered when making a judgement on whether an item is material
- (c) Provide and review an example of an auditors' report with an unqualified opinion on the financial statements of an incorporated company
- (d) Discuss the basic elements of the auditors' report
- (e) Discuss the concept of 'reasonable assurance'

### 6 The audit engagement process

- (a) Explain the purpose and content of client acceptance procedures comprising client screening, professional clearance and independence checks
- (b) Explain the purpose of an audit engagement letter
- (c) Examine and discuss the contents of an audit engagement letter

### 7, 8 & 9 Planning the audit

- (a) Distinguish between a systems approach to an audit and a direct verification approach
- (b) Explain the concept of audit risk, focusing in particular on inherent risk and control risk
- (c) Explain how auditors use knowledge of the business, in audit planning
- (d) Identify sources from which auditors may obtain knowledge of the business
- (e) Explain the role of audit programmes and summarise the advantages/disadvantages of using standard programmes
- (f) Outline planning issues with regard to audit planning meetings, the timing of audit work, staffing, training of the audit team, the use of suitable experts, and liaison with client staff including internal auditors
- (g) Explain how auditors may plan to use computer assisted audit techniques
- (h) Illustrate the use of an audit planning memorandum

### 10 Documenting the audit

- (a) Discuss the reasons for maintaining audit working papers
- (b) Explain the purpose of the current file and the permanent file
- (c) Describe the contents of a current file and a permanent file
- (d) Outline the quality control procedures that should exist over the review of audit working papers and in the reporting of important audit points to the audit engagement partner
- (e) Illustrate how information technology can be used in the documentation of audit work

# Implementing Audit Procedures (INT)

## 11 Internal control I

- (a) Explain the following terms:
  - (i) internal control system
  - (ii) control environment
  - (iii) control procedures
- (b) Describe the objectives of an internal control system
- (c) Discuss the different types of internal control
- (d) Describe and illustrate the inherent limitations of internal control systems
- (e) Discuss the importance of internal control to auditors

## 12,13 & 14 Internal control II

- (a) Describe and illustrate control procedures to meet specified objectives for each of the following functional areas:
  - (i) purchases and trade payables
  - (ii) sales and trade receivables
  - (iii) wages and salaries
  - (iv) tangible non-current assets
  - (v) inventory
  - (vi) bank receipts and payments
  - (vii) cash receipts and payments

## 15 Internal control III

- (a) Distinguish between application controls and general controls in computer-based systems and identify the objectives of each control type
- (b) Provide examples of specific general controls and application controls
- (c) Outline the typical control problems encountered in small computer-based systems

## 16 & 17 Internal control IV

- (a) Describe the techniques used by auditors to record and evaluate manual and computer-based accounting systems
- (b) Provide examples of, and explain the format and contents of internal control questionnaires (ICQ's) and internal control evaluation questionnaires (ICEQ's)
- (c) Explain the purpose of tests of control
- (d) Distinguish between tests of control and substantive procedures

## 18, 19 & 20 Audit testing of accounting systems controls

- (a) Explain the audit approach to testing accounting system controls over the following functional areas:
  - (i) purchases and trade payables
  - (ii) sales and trade receivables
  - (iii) wages and salaries
  - (iv) tangible non-current assets
  - (v) inventory
  - (vi) bank receipts and payments
  - (vii) cash receipts and payments
- (b) Explain the purpose of a management letter, indicating when it should be issued
- (c) Provide information on an accounting system in a functional area and prepare points for inclusion in a management letter, in the following format:
  - description of weakness
  - implication of weakness
  - recommendation(s) to address weakness

## 21 Audit sampling

- (a) Explain the relevance of sampling to the auditor
- (b) Outline selection methods, including random selection, systematic selection and haphazard selection
- (c) Outline the main factors affecting sample size

## 22 Audit evidence I

- (a) Explain the importance of evidential material in the audit process
- (b) Identify the factors that influence the reliability of audit evidence
- (c) Describe and give examples of procedures used by auditors to obtain audit evidence, including the use of analytical procedures and computer assisted audit techniques

## 23 Audit evidence II

- (a) Explain the importance of financial statement assertions
- (b) For each area in the financial statements of an incorporated company, provide examples of the representations made by directors
- (d) Explain the rationale for designing audit programmes by

## Implementing Audit Procedures (INT)

reference to audit objectives

- (e) Outline the factors determining the nature, timing and extent of substantive procedures to be carried out on an audit

### 24 & 25 Audit evidence III

- (a) Design audit programmes to meet specific audit objectives with regard to the following balance sheet items:
  - (i) tangible non-current assets.
  - (ii) investments
  - (iii) trade receivables
  - (iv) prepayments
  - (v) bank and cash
  - (vi) trade payables
  - (vii) accruals
  - (viii) provisions

### 26 & 27 Audit evidence IV

- (a) Explain why the audit of inventory is often an area of high audit risk
- (b) Describe the audit procedures that should be undertaken before, during and after attending an inventory count
- (c) Discuss the extent to which an auditor can rely on a system of perpetual inventory
- (d) Design an audit programme to meet specific audit objectives for the audit of inventory

### 28 & 29 Audit completion

- (a) Explain the purpose and nature of carrying out an overall review of the financial statements prior to expressing an audit opinion and outline the purpose and nature of:
  - (i) the application of analytical procedures
  - (ii) a review of opening balances and comparatives
  - (iii) a review of events after the balance sheet date
  - (iv) an evaluation of Going Concern
- (b) Explain the purpose of a letter of representation
- (c) Describe the contents of a letter of representation and provide examples of typical representations made in such a letter

### 30 Audit report

- (a) Revise the form and content of an auditors report with an unqualified opinion on the financial statements of an incorporated company (see sessions 4 & 5)
- (b) Outline the circumstances in which an auditor should issue a report with:
  - (i) a qualified opinion
  - (ii) an adverse opinion
  - (iii) a disclaimer of opinion

### 31 & 32 Revision