ACCA

Advanced Audit and Assurance (AAA) March/June 2026 Examiner's report

The examining team share their observations from the marking process to highlight strengths and weaknesses in candidates' performance, and to offer constructive advice for those sitting the exam in the future.

Contents

General comments

This examiner's report should be used in conjunction with the published March/June 2026 exam which can be found on the ACCA Practice Platform.

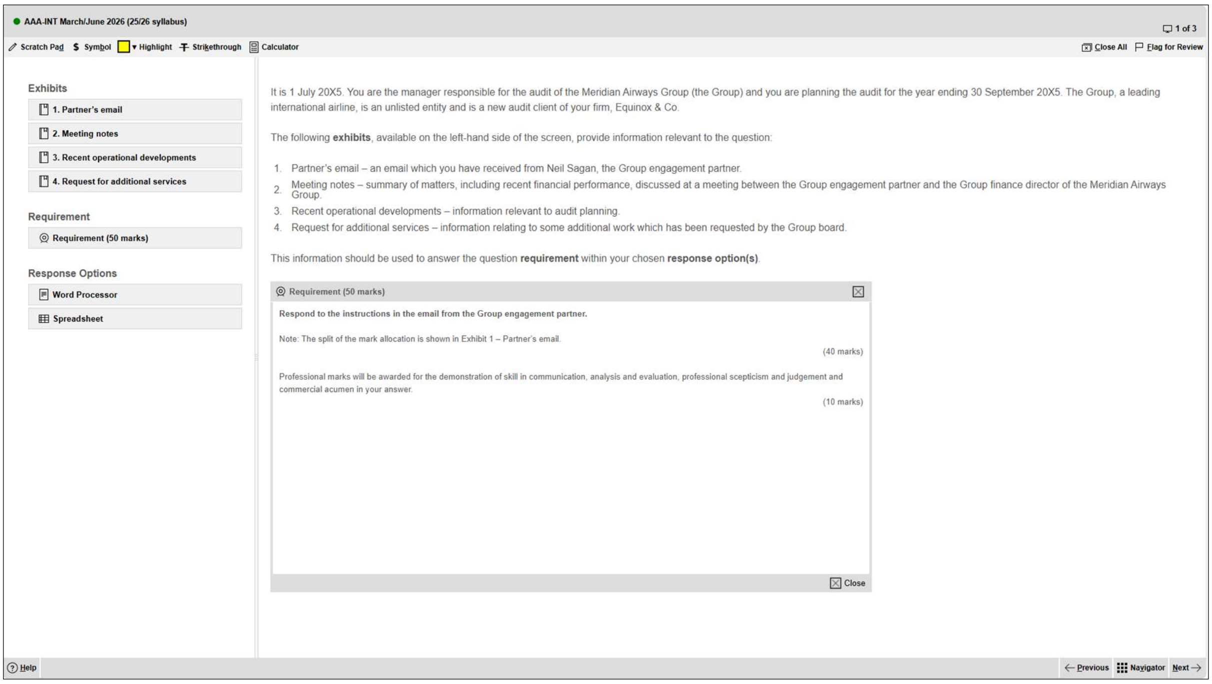
In this report, the examining team provide constructive guidance on how to answer the questions while sharing their observations from the marking process, highlighting the strengths and weaknesses of candidates who attempted these questions. Future candidates can use this examiner's report as part of their exam preparation, attempting question practice on the ACCA Practice Platform and reviewing the published answers alongside this report.

Format of exam

The Advanced Audit and Assurance (AAA) examination comprises two sections. Section A contains one compulsory question for 50 marks in total. Section B has two compulsory questions for 25 marks each. Out of this total of 100 marks across sections A and B, 20 marks were available for professional skills related to communication, commercial acumen, analysis and evaluation, and professional scepticism and judgement and 80 technical marks were available for applying appropriate technical knowledge in response to the requirements.

Section A

Question 1 – Meridian Airways



It is 1 July 20X5. You are the manager responsible for the audit of the Meridian Airways Group (the Group) and you are planning the audit for the year ending 30 September 20X5. The Group, a leading international airline, is an unlisted entity and is a new audit client of your firm, Equinox & Co.

Format of the question

This question was a typical Section A question, set at the planning stage of the audit of the Meridian Airways Group (the Group), an unlisted Group which operates in the aviation industry.

The question contained requirements focusing on an evaluation of the significant business risks faced by the Group, evaluation and prioritisation of the significant risks of material misstatement (RoMM), suitable audit procedures for gathering evidence in relation to a recent investment in a joint venture, and a discussion of the ethical and professional issues arising from a request for an additional service from the Group's board. The Section A question is typically where candidates perform best and the recent trend for more focused answers continued this session although there are still areas where significant improvement is required.

The Group featured in the scenario was a new client to the audit firm which operated in a specialised industry. Candidates should note that they are not expected to have detailed industry specific knowledge when answering questions in this examination and the scenario will always have enough information to enable sufficient risks to be identified and evaluated to achieve full marks.

Several exhibits were provided to candidates to enable them to develop an understanding of the issues relevant to the audit. These were as follows:

1.	Partner's email – an email which you have received from Neil Sagan, the Group engagement partner.
2.	Meeting notes – summary of matters, including recent financial performance, discussed at a meeting between the Group engagement partner and the Group finance director of the Meridian Airways Group.
3.	Recent operational developments – information relevant to audit planning.
4.	Request for additional services – information relating to some additional work which has been requested by the Group board.

In this question, candidates were given specific directions in the partner's email regarding which exhibits to use for each requirement, and it was pleasing to note that in the majority of cases these instructions were followed.

As always, candidates are encouraged to spend adequate time reading and planning and should aim to obtain a holistic view and understanding of the issues present in the question before compiling their answer. Where there is evidence of candidates taking this time and planning their answer, responses tend to be more structured and focussed which generally increases the chances of candidates scoring strong technical as well as professional marks.

Exhibit 1 – Partner's email
In a Section A question, the partner's email will always set out the detailed requirements which are to be answered and the associated mark allocation. It is therefore recommended that **candidates refer to the partner's email first** to ensure that they understand what they are being asked to do as they read through the detailed information as this will help them consider the best way to allocate their time to each requirement.

To: Audit manager
From: Neil Sagan, Group engagement partner
Subject: Meridian Airways Group – audit planning
Date: 1 July 20X5

Hello

I need you to start planning the audit of the Meridian Airways Group (the Group). I recently met with the Group finance director and I have provided you with a summary of our discussions as well as information about other recent developments during the year. In line with Equinox & Co's internal quality procedures, profit before income taxes will be used as the basis for determining materiality.

I require you to prepare briefing notes for my own use in which you:

(a) Using Exhibits 2 and 3, evaluate the significant business risks facing the Group.
(8 marks)

(b) Using Exhibits 2 and 3, evaluate and prioritise the significant risks of material misstatement to be considered in planning the Group audit.

Using profit before income taxes as your benchmark, you will need to determine and apply an appropriate materiality threshold in your briefing notes.
(18 marks)

(c) Design the principal audit procedures to be performed in respect of the investment in Carport Co as referred to in Exhibit 2.
(6 marks)

(d) Using Exhibit 4, discuss the ethical and professional issues arising from the request made by the Group board, and recommend any actions which need to be taken by Equinox & Co.
(8 marks)

Thank you.

The requirements of this question were split into four parts. Requirement (a) of the question asked candidates to evaluate the significant business risks facing the Group. Requirement (b) asked candidates to evaluate and prioritise the significant RoMMs present in Exhibits 2 and 3. Requirement (c) asked candidates to design the audit procedures to be performed in relation to the Group's recent investment in Carport Co. Finally, requirement (d) asked candidates to discuss the ethical and professional issues arising from the Group board's request for the firm to assist them with reviewing a business plan and providing advice on the Group's investment strategy.

Professional skills marks were available for all four of the professional skills associated with the syllabus.

General comments

Well prepared candidates scored highly on this question, particularly when focusing on the specific scenario. Where a candidate prepared an answer tailored to the scenario and focused on the requirements, high technical and professional skills marks were obtained.

Some candidates continue to produce vague and generic answers which were not tailored to the scenario and, therefore, did not achieve high technical or professional skills marks. Many candidates continue to fall short of the required depth of analysis which is needed at this level to support their answer. This exam requires candidates to demonstrate a high level of technical knowledge, but they also need to be able to apply this knowledge to the specific context of the scenario presented. Generic or high-level responses which do not build on the detail provided in the scenario will gain little to no credit. Candidates should use the specific information provided within the scenario to demonstrate both knowledge and application of skills to pass each requirement.

Candidates are once again reminded to remember their audience when writing their answers; the briefing notes are for the Group engagement partner and therefore there is no need to explain basic technical points such as what a business risk is, how audit risk is managed or how to calculate materiality. These types of answer points will score no credit and can affect candidates' ability to score highly in the communication marks.

Requirement (a) – 8 marks

(a) Using Exhibits 2 and 3, evaluate the significant business risks facing the Group. (8 marks)

In this section of the question, candidates were required to use the specific information provided in the scenario to evaluate the business risks facing the Group. In the AAA exam and in line with ISA 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement*, an evaluation of business risks should include those risks which would have a significant impact on the client business and where there is a significant probability of these risks occurring, after any mitigations stated in the information provided. Risks that are of a remote likelihood of occurring, already mitigated against or which will have an insignificant impact are not considered relevant to the evaluation. Candidates are required to identify what is significant in the context of the specific scenario, demonstrating good professional judgement and an ability to disseminate the important information while assessing the risks.

This requirement was generally well answered, with many candidates able to identify and evaluate a sufficient number of risks to score pass marks. The risks surrounding the Group's deteriorating financial performance, the new regulations introduced in the year and the possible compensation payable to passengers due to flight delays were generally well answered. Most candidates were able to successfully identify the challenges associated with an industry which would be greatly affected by market conditions, such as the recent recession which might disproportionately affect the more expensive business flights offered by Meridian Premium. Strong answers used calculations to demonstrate the decline in the Group's revenue and profit margins to support their analysis.

Most candidates were able to successfully identify the challenges associated with the significant cash requirements and very long lead times of obtaining new aircraft assets and the majority of answers were able to evaluate the impact that this might have on the Group's liquidity. Better answers also demonstrated commercial acumen by commenting on the potential restrictions of the Group being dependent on one aircraft manufacturer. The strongest answers were also able to discuss the challenges the Group may face in raising the necessary finance to purchase such expensive assets and that financial commitments made to acquire the assets three years ago might now be difficult to service due to the current market conditions. Some candidates also demonstrated appropriate professional skill by discussing that the Group's financing was secured on the aircraft and that any default on the loan would lead to the loss of significant assets.

Most answers identified the risk associated with the new Government legislation restricting the operation of nighttime flights and that this was likely to have a significant impact on the Group's operations and possible loss of customer goodwill. Better answers discussed the possibility of customers moving to competitors who were able to offer more options or flexibility and the impact this might have on revenue and cash flow.

Many answers also identified the risk associated with the compensation which might be payable to passengers due to the flight delays the Group had experienced during the year. The majority of candidates were able to consider the impact that this may have on the Group's reputation, linking this to the negative feedback which had been posted on social media. Strong answers used calculations to demonstrate the significance of the possible compensation payment which might have to be made and the impact that it would have on the Group's cash balance.

Some candidates continue to mix up business risk and RoMM resulting in an answer which is very muddled or cannot score any credit as it is explained from the wrong perspective. Disappointingly some answers to this requirement focussed on either risk mitigations or auditor's responses which was not requested and therefore were unable to score marks.

Candidates are reminded that they are <u>**not required to prioritise the business risks**</u>, this requirement relates to the <u>**evaluation of RoMM only**</u>, and candidates should not waste time providing this additional information. Candidates are again reminded to read the requirement carefully and to ensure that they have conducted adequate question practice to ensure they have developed appropriate exam technique.

Overall, in this section many candidates were able to evaluate sufficient risks to pass the requirement, and many candidates did not seem to have difficulty in identifying business risks and the implications on the Group; however the differentiator between stronger and weaker candidates continues to be their ability to evaluate the risks fully and demonstrate their professional skills of analysis and evaluation and commercial acumen.

Requirement (b) – 18 marks

> **(b)** Using Exhibits 2 and 3, evaluate and prioritise the significant risks of material misstatement to be considered in planning the Group audit.
>
> Using profit before income taxes as your benchmark, you will need to determine and apply an appropriate materiality threshold in your briefing notes.
>
> (18 marks)

This requirement is typical in volume and nature to many planning questions and examines a major area of the syllabus – evaluation of the risks of material misstatement. Candidates were directed to use Exhibits 2 and 3 to evaluate **AND** prioritise the RoMMs relevant to the audit.

There were 18 technical marks available in this part of the question in addition to a significant number of professional skills marks for the analysis and demonstration of professional scepticism. It was disappointing to see that some candidates are still failing to achieve as pass mark for this type of requirement as they continue to rely on basic or generic explanations which fail to refer to the information in the scenario or do not evaluate the risks in sufficient detail. Candidates who refer to the specific information provide more in-depth answers and are also able to assess the scale of the risk in the context of the specific audit client score highly.

Materiality
Specific marks were available in this requirement for the calculation and application of materiality in line with the syllabus guidance. While a significant number of candidates appeared prepared and followed the materiality guidance provided by the examining team, a significant number failed to do this and lost out on valuable technical and professional skills marks as a result.

Candidates are expected to determine an initial materiality threshold to be applied during the audit, as would be required in practice. Three technical marks are available for the materiality determination. Candidates are expected to demonstrate a knowledge of the appropriate percentage range for the benchmark as instructed by the Group engagement partner. In this question, profit before income taxes (PBIT) was to be utilised with candidates expected to calculate the monetary amount using 5% and 10% as their range. Candidates must then use their professional judgement to select an appropriate materiality threshold within the range calculated given the risk levels which exist in the audit and provide a brief justification for their choice. Each of these steps examines a different aspect of the understanding and skills required of an auditor in relation to determining an appropriate materiality level.

Generally candidates' attempts at determining and applying materiality continues to be mixed. In this session many candidates were able to identify an appropriate range and provide valid calculations. However, some candidates did not select the appropriate profit figure from the scenario, choosing to base their calculations on the Group's operating profit rather than PBIT. Candidates are reminded to read the financial information provided in the question carefully.

Some candidates wasted time by doing all the calculations correctly but then failed to apply their own materiality threshold throughout their answer and reverted to doing calculations for each item based on total assets or revenue. This resulted in many candidates wasting valuable time and failing to score the professional skills marks attached to this area. A few candidates also inappropriately used the prior year financial information, again demonstrating a lack of understanding and professional judgement.

It was also disappointing to note that some candidates failed to justify the materiality threshold selected for the audit or provided a very weak justification. The examining team will give credit for any reasonable explanation of the chosen materiality threshold, as the mark is to reward candidates who can justify their response through the application of professional judgement. However, simply stating that 'materiality has been set at a specific value due to the risks which have been identified' or because the audit is 'high risk' is not considered a suitable explanation by the examining team and will not be awarded credit. Many candidates also simply stated that the materiality level had been selected because the Group was a new client of the firm. These explanations fail to provide the appropriate level of consideration which is needed over such a crucial aspect of audit planning. These types of justifications do not provide adequate consideration of the risk profile of the audit. Unfortunately candidates who used these types of comments as their explanation were not able to score the full technical marks in this area. Candidates are not required to select the identical percentage or figure or provide a justification identical to that shown in the model answer but are advised to review the model answer carefully to ensure appropriate understanding of the type of justification which is needed.

There also continues to be examples of answers which demonstrate a clear lack of understanding of the relationship between audit risk and materiality. As mentioned for the last few sessions, some candidates concluded that as there was a high level of risk present within the audit the materiality level could be increased, thus failing to understand that there is an inverse relationship between audit risk and materiality. Understanding this relationship is a basic principle and assumed knowledge. Candidates are encouraged to revisit the principles of materiality which were explored in Audit and Assurance (AA) at the Applied Skills level.

Evaluation of the risks of material misstatement
Using Exhibits 2 and 3, candidates were required to evaluate and prioritise the significant RoMMs to be considered in planning the audit. In any effective risk evaluation, candidates need to demonstrate an understanding of risk, how it arises and how the audit will focus on those issues most likely to cause a material misstatement. Candidates who demonstrated a depth of evaluation were awarded more credit than those providing generic responses. Performance on this requirement was mixed.

The majority of candidates were able to identify the RoMM associated with the Group's depreciation policy in relation to its aircraft, correctly identifying that IAS® 16 *Property, Plant and Equipment* states that each part of an asset with a cost that is significant should be depreciated separately. Many candidates recognised that a complex asset like an airplane would be comprise multiple parts which will likely have different useful lives. Strong answers were able to connect this to the point in the scenario which demonstrated the contradictory nature of the Group's accounting policy with manufacturer guidelines regarding the useful life of component parts. Most candidates were able to conclude that as a result the Group's aircraft assets were overstated and depreciation charges understated. Only the very best answers went on to discuss the impact that this issue might have on the prior year financial information and that in line with IAS 8 *Basis of Preparation of Financial Statements* this would constitute a prior year error which might require a restatement of comparative information.

Many candidates were also able to identify the issue relating to the compensation which might be payable due to a significant number of flight delays. Most candidates who evaluated this risk were able to score technical marks for demonstrating awareness of the requirements of IAS® 37 *Provisions, Contingent Liabilities and Contingent Assets* in terms of when a provision should be recognised. However, it was disappointing to see that a large number of candidates did not provide any detailed analysis or accurately **apply the requirements of IAS 37 to the specifics of the scenario**.

Based on the information provided, it could be established that there was a present obligation due to the 600 flight delays which had occurred in the year and the amount could be reliably estimated due to the detailed penalties set out in the relevant legislation. The determination of whether the payment was probable required a little more consideration given the Group finance director's assessment that the cause of the delays was due to circumstances outside the Group's control, a valid exception set out in the legislation. However, given that the reason was due to operational issues experienced by the Group, disappointingly few candidates demonstrated appropriate professional scepticism and failed to provide an adequate level of challenge to this assertion. The analysis provided by many candidates jumped straight from the requirements of IAS 37 to a conclusion that liabilities and expenses would be understated as a result. This level of analysis is a typical example of where candidates do not tailor their answers and severely limit the amount of technical and professional marks which can be awarded. Strong answers in this area were able to link this to a potential area of management bias whereby the Group finance director may be unwilling to include the provision for compensation due to the already deteriorating financial position of the Group.

It was pleasing to see that many candidates discussed the possible impairment which was needed in relation to the Group's assets and subsidiaries. Many answers discussed that the overall decline in performance, and specifically the decline in the revenue of Meridian Premium, and the loss incurred by Meridian Economy possibly due to the impact of the new restrictive regulations were all possible indicators of impairment. Many answers confidently discussed the requirements of IAS 36 *Impairment of Assets*, and that due to the indicators of impairment, Group management should conduct an impairment review of each subsidiary, concluding that assets may be overstated and impairment charges understated.

The risk arising in relation to the Group's recent investment in Carport Co was less well tackled. Most answers were able to recognise that the current accounting treatment of the investment was incorrect, but many lacked the necessary financial reporting knowledge to adequately evaluate **<u>why</u>** the treatment was incorrect and what should be done instead. Some answers incorrectly concluded that Carport Co was a subsidiary and should be fully consolidated at the year-end date. A sizeable number of candidates suggested that Carport Co was an associate of the Group rather than a joint venture. While these candidates were awarded credit for recognising that the equity method should be applied, they lost valuable marks due to their incorrect reasoning in reaching that conclusion.

Better answers were able to discuss why Carport Co should be treated as a joint venture due to the shared control demonstrated through an equal share of the profit or losses and representation on the board. The strongest answers also supported their analysis with appropriate calculations to quantify the likely impact on the consolidated financial statements if Carport Co was to realise the expected $2 million profit in the year. Very few candidates considered that an impairment review may also be required on this investment due to the predicted decline in passenger numbers and impact of the recession. Candidates who did make this connection demonstrated high levels of professional scepticism and were awarded both technical and professional marks accordingly.

The answers in relation to the fuel derivatives utilised by the Group were on the whole disappointing. Some candidates were able to identify that in line with IFRS® 9 *Financial Instruments* the fuel derivatives should be measured at fair value, the calculation of which is likely to be complex and scored technical credit as a result. The majority of candidates either ignored this risk area altogether or failed to do much more than simply copy and paste the detail from the scenario into their answer. This, combined with the relatively poor answers also seen in relation to the loan taken out by the Group during the year, suggests a lack of knowledge and confidence from candidates when addressing issues related to IFRS 9.

Some candidates wasted time evaluating risks which were not relevant in the context of the scenario, such as the Group's compliance with IFRS 8 *Operating Segments*. The Group was an unlisted entity and therefore does not need to comply with the requirements of IFRS 8. This therefore cannot be perceived as a risk of material misstatement and candidates who spent time on this area unfortunately were not awarded credit. Similarly, candidates should be reminded not to waste time on detection risks relating to the new client as these will not score marks where only RoMMs have been requested.

Finally, very few candidates discussed the possible risk of the Group facing going concern issues due to the impact of the recession on performance and possible liquidity issues. Disappointingly, a number of candidates who did address this issue jumped straight to suggesting that the Group financial statements should be prepared on a break-up basis, demonstrating a distinct lack of understanding and professional judgement. Only better answers were able to connect the declining results with the fact that a material uncertainty related to going concern might exist which would require disclosure.

Prioritisation of RoMM

A high proportion of answers still fail to provide any indication of how the risks should be prioritised, therefore failing to follow a key instruction in the partner's email and lose out on valuable professional marks as a result. Candidates can demonstrate their prioritisation in a variety of ways, including providing some justification as to why a risk is prioritised throughout their answer or in a conclusion provided somewhere in their answer. To score these marks, candidates **must do more than simply say these risks are a priority as they are material or that their answer lists the risks in order of priority**. Only risks of material misstatement are relevant to the requirement and therefore candidates must demonstrate additional reasoning as to why specific risks are more important. Candidates are encouraged to review the model answers to gain understanding of what is expected in relation to this requirement.

Requirement (c) – 6 marks

(c)	Design the principal audit procedures to be performed in respect of the investment in Carport Co as referred to in Exhibit 2. (6 marks)

Requirement (c) is typical of a section A question and required candidates to suggest audit procedures to address a specific area of risk arising in the question. In this question candidates were asked to design the principal audit procedures which should be performed in respect of the investment in Carport Co. Answers to this requirement were mixed. Similar to the points covered above regarding the risk, many candidates were unable to convert their accounting knowledge in relation to accounting for a joint venture into appropriate audit procedures.

The weakest answers focussed on agreeing the $90 million investment to bank statements or obtaining a copy of recent financial information for Carport Co but did not detail how this information could be used to assess the accounting treatment within the Group's financial statements i.e. that an appropriate share of the company's profit has been included. Answers of this nature scored minimal marks and no professional marks as these procedures while likely to be included as a starting point in an audit work programme, provide little to no evidence for the auditor over the key risks connected with the investment and how it should be treated in the consolidated financial statements.

Weaker answers also focussed on reviewing board minutes for discussion of the investment or obtaining written representations to confirm joint control, demonstrating a lack of professional judgement in terms of when it is appropriate to rely on this type of evidence. Where candidates developed the review of the board minutes to a more pertinent area, such as to assess composition and participation on the board, more credit was awarded. A few candidates also provided very brief statements such as 'determine that the Group has joint control of Carport Co'. Answer points like these will score no credit as it is not a detailed audit procedure which would allow the auditor to gather the necessary evidence to reach a conclusion on the treatment of the investment.

Some answers focussed more on the strategic objectives of Carport Co, such as trying to consider whether there was a need for such car parks at the relevant airports, which on its own does not provide the auditor with evidence over a specific audit assertion. Where answers connected this to the possible need for an impairment of the investment due to declining demand then the purpose of the procedure was clearer and technical credit was awarded.

Many answers also failed to provide enough procedures to score all the technical marks available with some only providing one or two procedures. Candidates are reminded that one mark is available for each well written procedure which has a clear source and purpose and is relevant to achieving the key audit objective of gathering **sufficient and appropriate** audit evidence.

Better answers focussed on obtaining the legal agreement regarding the investment to provide evidence of the number of shares which were acquired and the voting rights attached to the shares. Candidates who thought about how joint control would be demonstrated were able to come up with more applied procedures by seeking to obtain organisational structure documents which confirmed board composition or legal documentation which confirmed that the Group was entitled to a joint share of the profits or losses of Carport Co.

The strongest candidates gained a professional mark under analysis and evaluation for designing procedures which addressed the areas of judgement and risk involved in determining the appropriate treatment for the investment.

Requirement (d) – 8 marks

(d)	Using Exhibit 4, discuss the ethical and professional issues arising from the request made by the Group board, and recommend any actions which need to be taken by Equinox & Co. (8 marks)

Requirement (d) asked candidates to discuss the ethical and professional issues arising from a request for additional services by the Group board. Exhibit 4 detailed the request relating to assistance with reviewing a business plan for a possible future investment of the Group and constituted corporate finance services. The information also detailed a further request for the firm to attend a meeting with the Group's lender to answer questions regarding the potential investment. Finally there was an offer of discounted travel on flights operated by the Group and its subsidiaries.

The responses to this requirement were mixed. Better answers were able to correctly identify and fully explain the self-review threat arising from the fact that the new joint venture and financing would form a significant part of the consolidated financial statements and the audit team may be unwilling to challenge the accounting treatment or carrying amount of the joint venture if the firm has been involved in the initial transaction. Many candidates stated that the use of a separate team would be a suitable safeguard to mitigate for this threat, but the use of a separate team was clearly stated within the question and therefore was not awarded credit. A better safeguard would have been to suggest the use of an independent appropriate reviewer to ensure that work was carried out effectively.

Many candidates were also able to correctly identify that there was a risk the firm would assume management responsibility by providing the additional service, but this was not always well explained with many simply stating that this is management's responsibility which is a somewhat circular explanation. Most however, did recognise that the assumption of management responsibilities is prohibited by the IESBA International Code of Ethics for Professional Accountants (or other relevant local equivalent in the UK and IRL versions of the exam). Better answers were able to conclude that while the firm must not be involved in making the final decision on whether to go ahead with the investment, there might be scope to provide feedback or analysis on the information included in the business plan.

Discussion around the advocacy threat present in the scenario were often disappointing, with many candidates simply stating that the provision of the service would result in the firm advocating for the client. This type of explanation does not provide the depth of analysis which is required in the AAA exam. Stronger answers were able to consider that the advocacy threat may arise in a number of ways. Firstly, that deciding on the suitability of an investment would result in the firm promoting the interests of the client as the decision is connected to the strategic objectives and future performance of the Group. Further attending a meeting with the Group's lender to answer questions on the proposed business plan would suggest that the firm agrees with the Group's strategic direction or could be perceived as the firm confirming that this is a sound investment decision and the Group's ability to repay the loan.

Surprisingly, many candidates overlooked the possible intimidation threat which existed due to the suggestion by the Group finance director that a satisfactory outcome on the corporate finance service would allow the firm to retain the audit work. Some identified this as a potential intimidation threat but failed to discuss the implication of the threat i.e. that the firm may be motivated to behave in a manner which ensures they retain the work by adhering to the requests of management.
A significant number of candidates suggested that there was a familiarity threat present within the information as working closely with management on the audit and the corporate finance work would result in close relationships being developed. Given the Group was a new client of the firm in the year and a separate team would be used if the additional service was provided, this threat was unfounded. Candidates are reminded that they will always be provided with sufficient detail to come up with relevant ethical threats rather than speculative ones.

The majority of answers were able to identify and adequately explain the self-interest threat which would arise on acceptance of the offer of discounted travel by the Group. Most candidates were able to support their answer by drawing on their knowledge of the relevant ethical guidance to discuss how this would constitute a gift from the audit client and that gifts should not be accepted unless trivial or inconsequential. It was, however, disappointing to note that few candidates attempted to take their analysis any further and failed to conclude on whether the offer of the discounted flights would breach the threshold for being trivial. Given that the Group was making the offer to the firm as a whole rather than simply the audit team, exacerbated the level of perceived risk within the offer. Only the best answers made any attempt to properly explain the basis on which the offer should be declined.

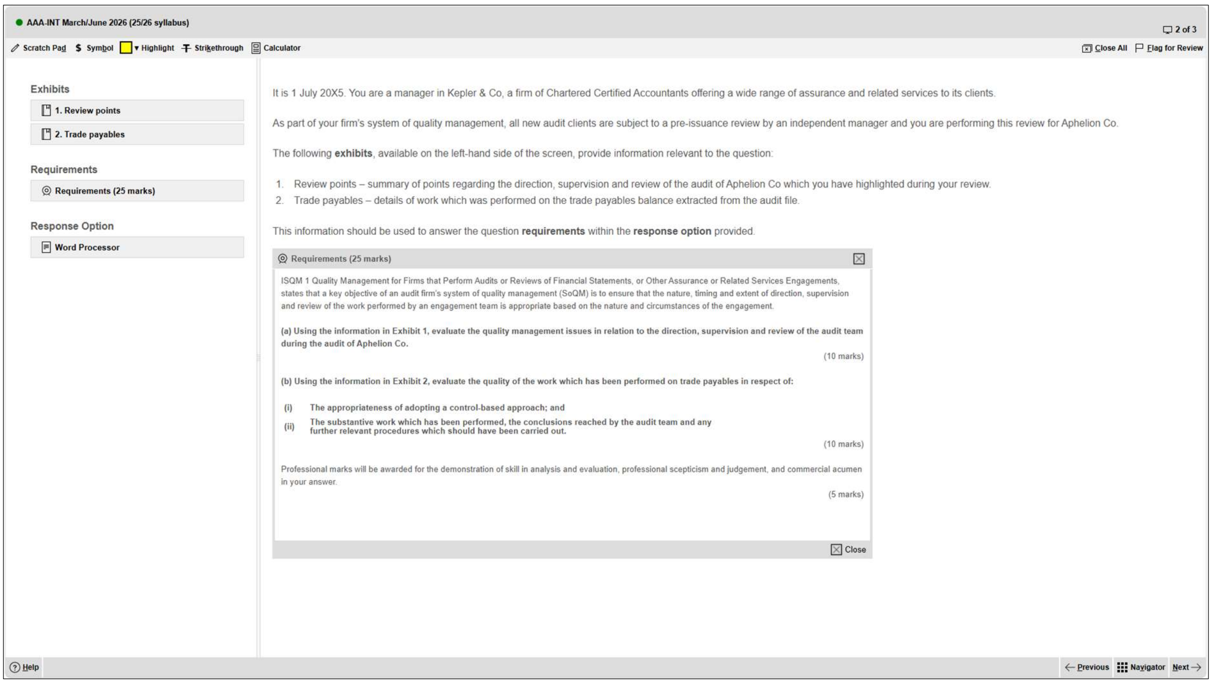
AAA candidates are again reminded that in order to score the technical mark it is not sufficient to only demonstrate knowledge of the threats to objectivity, they must be appropriately applied and explained in the context of the scenario. This is also a key professional skill – the Group engagement partner, for whom the briefing notes are being prepared, will not need to be educated on what a self-interest or self-review threat is, for example, but will want to know why this threat specifically arises in the circumstances presented. Candidates are therefore reminded that to score full marks in relation to the ethical issues they must do more than simply state it is a self-interest threat; they must **explain the implications of the threat**.

Overall professional skills marks

In addition to the professional skill marks described within the different sections of the question, four marks were available for communication overall. These marks were awarded for presentation of briefing notes with an appropriate introduction, relevance of answer and clarity of explanations. This session it continued to be disappointing that a number of candidates did not present their answer in a suitable format and therefore were not able to score all the communication marks.

Section B

Question 2 – Kepler



Kepler & Co was a 25-mark question focussed on evaluating quality management issues which had arisen on the audit of Aphelion Co. The question also focussed on the quality of the work which had been performed by the audit team on trade payables.

> It is 1 July 20X5. You are a manager in Kepler & Co, a firm of Chartered Certified Accountants offering a wide range of assurance and related services to its clients.
>
> As part of your firm's system of quality management, all new audit clients are subject to a pre-issuance review by an independent manager and you are performing this review for Aphelion Co.

There were two exhibits:

1. Review points – summary of points regarding the direction, supervision and review of the audit of Aphelion Co which you have highlighted during your review.
2. Trade payables – details of work which was performed on the trade payables balance extracted from the audit file.

Overall candidates' performance on this question was mixed with some very strong answers, particularly to part (a). However some answers were very vague, lacked sufficient detail and did not adequately draw on the information provided in the scenario to score a pass mark.

Answers to requirement (a) were generally better, providing more detail and application to the scenario. Answers to requirement (b) were weak overall with many candidates showing a lack of understanding over when and how a controls-based approach should be used as well as an inability to effectively challenge the substantive work which had been performed.

As such, many candidates were also unable to demonstrate the professional skills of analysis and evaluation, professional scepticism and judgement, and commercial acumen, which were examined in the question.

Requirement (a) – 10 marks

ISQM 1 Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, states that a key objective of an audit firm's system of quality management (SoQM) is to ensure that the nature, timing and extent of direction, supervision and review of the work performed by an engagement team is appropriate based on the nature and circumstances of the engagement.

(a) Using the information in Exhibit 1, evaluate the quality management issues in relation to the direction, supervision and review of the audit team during the audit of Aphelion Co.

(10 marks)

Requirement (a) asked candidates to evaluate the quality management issues in relation to the direction, supervision and review of the audit team on the audit of Aphelion Co. The wording of the requirement was designed to help candidates connect their understanding and knowledge of ISQM 1 *Quality Management for Firms that Perform Audits of Reviews of Financial Statements, or Other Assurance or Related Services Engagements,* with the specifics of the scenario. Candidates who were able to consider the activities set out in ISQM 1 for each of these stages of the audit process were able to identify more issues and therefore extend their answer to score more technical credit.

Candidates were directed to use Exhibit 1, and it was pleasing to see that the majority of answers followed this guidance. Overall, however, answers to this requirement were mixed with many candidates not evaluating an appropriate number of areas with sufficient depth to pass.

Weaker answers often identified an issue and then included statements such as 'the quality of the audit planning was poor' or 'this is a breach of the firm's system of quality management (SoQM)' without any further detail or explanation. This type of answer is not reflective of the depth which is required at AAA and will receive little to no credit. Candidates must identify the issue from the scenario, and then fully evaluate the implications of the issue on the quality of the audit. For example, many candidates correctly identified that the audit planning had only been completed the week before the interim audit, but weaker answers then simply stated that this constituted poor or rushed planning. This is not sufficient analysis to determine what the likely outcome of this would be i.e. that in such a short period it is unlikely that thorough and detailed risk assessment procedures had been conducted. Another example of this was where many candidates stated that the team had not attended a team briefing meeting and that this was a breach of the firm's SoQM. This type of comment does little more than repeat what is in the scenario and again fails to explain the implications of this breach. Better answers were able to utilise knowledge of the overall purpose of the team briefing meeting to discuss that the audit engagement partner had failed to set the overall direction of the audit and to ensure that the whole audit team understood the focus of the audit or the key risks.

It was pleasing to see that many candidates were able to evaluate the issues around the process which had been used for setting materiality, commenting on the fact that there had no reassessment of materiality during the audit and that basing materiality on existing clients would not fully reflect the risk profile of Aphelion Co.

Another area which was better handled was in relation to the lack of review which had taken place on the audit, with many candidates commenting on the suitability of the audit supervisor conducting the review on the more junior members of the team. Better answers recognised that the lack of audit manager review meant that the work of the supervisor had not been adequately considered and that the resourcing issue should have been identified and rectified much earlier in the audit process. Very few candidates adequately challenged the audit engagement partner's approach to reviewing the file and again failed to recognise that that there was a significant risk that not all key areas of the audit had been identified and tested.

Requirement (b) – 10 marks

(b) Using the information in Exhibit 2, evaluate the quality of the work which has been performed on trade payables in respect of:

(i) The appropriateness of adopting a control-based approach; and

(ii) The substantive work which has been performed, the conclusions reached by the audit team and any further relevant procedures which should have been carried out.

(10 marks)

Requirement (b) was generally poorly attempted, with many candidates not able to provide sufficient answer points to score a pass mark.

Requirement (b)(i) was poorly attempted by the majority of candidates, with many either not producing enough points to score well, misunderstanding the requirement or demonstrating a lack of understanding over the objective of controls testing.

It was disappointing that many answers were not able to evaluate the appropriateness of adopting a controls-based approach due to a lack of knowledge over how the auditor would assess the operating effectiveness of a company's internal control system. Specifically, many candidates failed to understand that discussion with the finance director would not allow for this objective to be satisfied. Better answers recognised that a walk-through only allows the auditor to confirm their understanding of a system but does not constitute controls testing and will not help the auditor to conclude on operating effectiveness. Only the very best answers recognised that the whole system had not been confirmed as the walk-through was limited to only inventory purchases and did not cover other types of purchases such as capital expenditure.

Very few candidates were able to challenge the controls testing which had been performed on the supplier statement reconciliations, often a key control over trade payables, and only the best answers suggested that only verifying a reconciliation had been performed and reviewed did not help the auditor determine that appropriate actions have been taken where necessary. Some candidates incorrectly commented on the fact that it was inappropriate for the finance director to be reviewing these reconciliations and that this should be performed by the auditor. This demonstrated a lack of understanding as to what controls testing actually involves, i.e. that the control is an internal activity and the auditor is seeking to perform work to confirm that the control is operating as expected.

Requirement (b)(ii) was better attempted, but many candidates struggled to provide a sufficient number of targeted points to score enough technical marks to pass the requirement. Weaker answers provided generic points or additional procedures for trade payables rather than focussing on the two areas of substantive testing which were provided in the question. Generic points did not address the requirement which asked candidates to evaluate the work which had been performed and the conclusions which had been reached by the audit team. Candidates are reminded that they must answer the question as set rather than providing speculative answers.

Candidates who structured their answer to work through the two areas which were covered by the scenario, namely debit balances included in trade payables and amounts which had been outstanding for over 90 days, scored better.

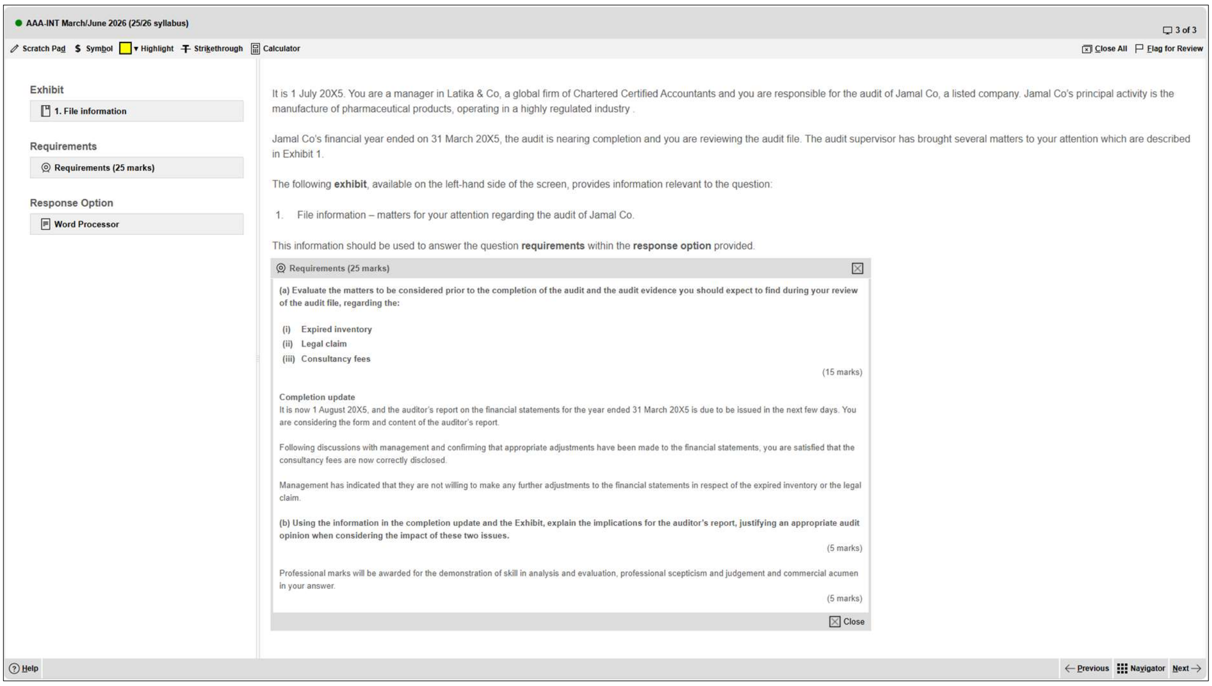
Many answers commented on the inappropriateness of not investigating the immaterial items across the two areas, demonstrating understanding of the fact that when aggregated with other misstatements these issues could become significant.

Better answers displayed understanding of IFRS 18 *Presentation and Disclosure in Financial Statements* by stating that the netting of debit and credit balances is not permitted. Only the very best answers went on to explain that the debit balances had not been sufficiently assessed for recoverability.

In relation to the balances over 90 days old, a majority of answers discussed that the classification of this balance was incorrect but very few discussed the appropriateness of how the balance had been treated in the financial statements i.e. it had been recorded at contract value, but it should have been discounted to present value.

Performance on this requirement was improved due to the inclusion of some suitable additional substantive procedures and this helped a number of candidates to achieve a pass mark.

Question 3 – Jamal


AAA-INT March/June 2026 (25/26 syllabus)

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Scratch Pad | Symbol | Highlight | Strikethrough | Calculator | Close All | Flag for Review

Exhibit

1. File information

Requirements

Requirements (25 marks)

Response Option

Word Processor

It is 1 July 20X5. You are a manager in Latika & Co, a global firm of Chartered Certified Accountants and you are responsible for the audit of Jamal Co, a listed company. Jamal Co's principal activity is the manufacture of pharmaceutical products, operating in a highly regulated industry .

Jamal Co's financial year ended on 31 March 20X5, the audit is nearing completion and you are reviewing the audit file. The audit supervisor has brought several matters to your attention which are described in Exhibit 1.

The following **exhibit**, available on the left-hand side of the screen, provides information relevant to the question:

1. File information – matters for your attention regarding the audit of Jamal Co.

This information should be used to answer the question **requirements** within the **response option** provided.

Requirements (25 marks)

(a) Evaluate the matters to be considered prior to the completion of the audit and the audit evidence you should expect to find during your review of the audit file, regarding the:

(i) Expired inventory
(ii) Legal claim
(iii) Consultancy fees

(15 marks)

Completion update
It is now 1 August 20X5, and the auditor's report on the financial statements for the year ended 31 March 20X5 is due to be issued in the next few days. You are considering the form and content of the auditor's report.

Following discussions with management and confirming that appropriate adjustments have been made to the financial statements, you are satisfied that the consultancy fees are now correctly disclosed.

Management has indicated that they are not willing to make any further adjustments to the financial statements in respect of the expired inventory or the legal claim.

(b) Using the information in the completion update and the Exhibit, explain the implications for the auditor's report, justifying an appropriate audit opinion when considering the impact of these two issues.

(5 marks)

Professional marks will be awarded for the demonstration of skill in analysis and evaluation, professional scepticism and judgement and commercial acumen in your answer.

(5 marks)

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It is 1 July 20X5. You are a manager in Latika & Co, a global firm of Chartered Certified Accountants and you are responsible for the audit of Jamal Co, a listed company. Jamal Co's principal activity is the manufacture of pharmaceutical products, operating in a highly regulated industry. Jamal Co's financial year ended on 31 March 20X5, the audit is nearing completion and you are reviewing the audit file. The audit supervisor has brought several matters to your attention which are described in Exhibit 1.

There was one exhibit:

1.	File information – matters for your attention regarding the audit of Jamal Co.

This 25-mark question was set at the completion and reporting stage of the audit of Jamal Co. The question took on a familiar format and candidates were asked to evaluate three matters, including the expected evidence which should have been gathered on these matters, prior to the auditor's report being signed.

The question then moved on in time and candidates were presented with some additional information on the resolution of these matters and asked to justify an appropriate audit opinion. Performance on this question was generally satisfactory although as mentioned in previous sessions, improvement is still required in relation to assessing material misstatements and determining a suitable audit opinion.

Professional skill marks were available for analysis and evaluation, professional scepticism and judgement and commercial acumen.

Requirement (a) – 15 marks

(a) Evaluate the matters to be considered prior to the completion of the audit and the audit evidence you should expect to find during your review of the audit file, regarding the: **(i) Expired inventory** **(ii) Legal claim** **(iii) Consultancy fees** (15 marks)

Requirement (a) asked candidates to evaluate the matters to be considered and evidence which should have been gathered in relation to inventory which was being held by Jamal Co past its expiry date, a legal claim and consultancy fees which had been paid to another company, Boyle Consulting Co. Performance on this requirement was generally satisfactory with most candidates able to have a reasonable attempt at each of the matters raised.

Some candidates failed to read the requirement carefully and only completed one aspect, by evaluating the matters to be considered but failing to include details of the evidence which should be expected on the audit file. This resulted in those candidates severely limiting the technical marks available to them. Candidates are reminded to ensure they read the requirement very carefully and to ensure they are practicing exam standard questions as this is a very common format for AAA exam questions set at the completion stage.

Responses to part (a)(i) were generally of a good standard, with the majority of candidates able to evaluate the requirements of IAS 2 *Inventories* regarding the valuation of inventory at the lower of cost and net realisable value (NRV). Many responses were also able to discuss the likelihood that the NRV of the expired inventory was $nil and should be full written off. Better answers connected the fact that the company operated in the pharmaceutical industry to the possibility that many products were likely to have a limited shelf life which increased the overall risk of obsolescence and the audit team should ensure that they were satisfied that no other items of inventory were affected. A good number of candidates were also able to demonstrate professional scepticism and commercial acumen by challenging the reason provided by the finance director and the likely commercial and legal implications of selling products beyond their use-by date.

The majority of answers also provided appropriate evidence points in relation to the expired inventory, focusing on evidence which confirmed the amount of inventory affected, whether any of the products had since been sold or evidence of the items being retested and repackaged as suggested by the finance director. Stronger answers looked for third-party evidence that this type of treatment was appropriate from either a pharmaceutical expert or the regulatory authority.

Answers to part (a)(ii) were mixed. Many candidates were able to provide a thorough and detailed answer, applying the requirements of IAS 37 to offer appropriate analysis and conclusions on how the legal claim should be treated in the financial statements. Strong answers were able to provide appropriate evidence points including reviewing the correspondence and notifications received, seeking an up-to-date assessment of the situation from Jamal Co's legal advisers and reviewing the legislation and affected products to gain a clearer understanding of the likelihood and extent of the legal claim. Better answers were also able to demonstrate high levels of professional scepticism and commercial acumen by assessing the reasons management may have to not disclose the legal claim or the impact of failing to disclose a legal claim which was later proven against the company.

Some candidates misunderstood the issue, concluding that the possible legal claim was a subsequent event and assessed the issue using the criteria of IAS 10 *Events After the Reporting Period*. This resulted in many candidates discussing the issue in terms of whether it was an adjusting or non-adjusting event rather than considering whether a provision or disclosure of a contingent liability was required in line with IAS 37. Jamal Co had received notification of the legal claim in March 20X5 which was within the financial year, thereby indicating that an obligating event had occurred. This led to a number of candidates restricting the technical marks which were available to them. Candidates are again reminded to read the information very carefully as understanding the details of the scenario can have a significant impact on the financial reporting rules which should be applied.

Answers to part (a)(iii) in relation to the consultancy fees were generally weaker with a surprising number of candidates failing to recognise that the transaction was a related party transaction due to the familial relationship between the chief executive of Jamal Co and the owner of Boyle Consulting Co. Many answers discussed the consultancy fees from an ethical standpoint, focussing on a familiarity threat between the companies but failed to consider the requirements of IAS 24 *Related Party Transactions* or ISA 550 *Related Parties*. Some answers strayed into more of a business risk evaluation suggesting that the terms of the agreement were detrimental for Jamal Co and the contract should be cancelled and renegotiated. Many of these points did not directly answer the requirement as they would not allow the auditor to determine if the matter had been appropriately treated or that sufficient and appropriate evidence had been gathered prior to signing the auditor's report.

Better answers were able to confidently discuss the disclosure requirements of IAS 24, and the strongest answers were able to take this further and assess the transaction in terms of whether it had been conducted at 'arm's length'. Strong answers also challenged the commercial rationale of the transaction commenting on it being a possible method of diverting funds out of the company.

A number of candidates, particularly in the UK version of the exam, spent time challenging and recalculating the materiality level which was provided in the question. This was not required and was not awarded credit. The AAA questions set at the completion stage will provide an appropriate materiality level designed to allow candidates to assess the overall significance on an issue or misstatement, particularly in relation to determining its impact on the auditor's opinion. If the examining team wish candidates to challenge or reassess materiality at this stage it will be made very clear within the question scenario.

Requirement (b) – 5 marks

> **Completion update**
> It is now 1 August 20X5, and the auditor's report on the financial statements for the year ended 31 March 20X5 is due to be issued in the next few days. You are considering the form and content of the auditor's report.
>
> Following discussions with management and confirming that appropriate adjustments have been made to the financial statements, you are satisfied that the consultancy fees are now correctly disclosed.
>
> Management has indicated that they are not willing to make any further adjustments to the financial statements in respect of the expired inventory or the legal claim.
>
> **(b) Using the information in the completion update and the Exhibit, explain the implications for the auditor's report, justifying an appropriate audit opinion when considering the impact of these two issues.**
>
> (5 marks)

Requirement (b) then moved the candidates on in time and asked them to consider the **impact of the two issues** **(aggregate impact)** on the auditor's report where management had processed the adjustment regarding the consultancy fees but had refused to make any changes in relation to the expired inventory and legal claim. Disappointingly some candidates misread the details of the requirement and assumed that all the issues remained outstanding. These candidates were not able to score all the analysis marks but were able to score follow through marks where their conclusions regarding the audit opinion were appropriate. Again, candidates are reminded to read the details of the scenario and the requirements carefully.

It also continues to be disappointing to see that many candidates are not assessing the impact of the misstatements in aggregate and often suggest that a different opinion would be issued in relation to each misstatement e.g. one is modified and the other is not or that different reasons for modifications have arisen. In this question some candidates suggested that the auditor would provide a qualified opinion on the inventory issue but a disclaimer of opinion in relation to the legal claim, showing a distinct lack of understanding over how the type of modification is determined by the auditor. Candidates are again reminded to ensure that they have a good knowledge of auditor reporting requirements and must understand that the auditor will **issue a single opinion** on the financial statements and therefore this type of conclusion is inappropriate. This lack of understanding means that candidates waste time providing inappropriate analysis, and it also affects their ability to score the professional marks in this area.

Some candidates continue to work through every possible option in relation to the auditor's opinion and other inclusions in the auditor's report, such as emphasis of matter paragraphs or key audit matter sections. Candidates are once again reminded that they should focus on what is relevant in the circumstances as this can result in valuable minutes being wasted on points which are then disregarded by the candidate or do not score credit. Candidates should ensure that they review the model answer to understand the level of depth and analysis which is needed to score the technical and professional marks in relation to auditor reporting.

Despite this, many candidates were able to conclude that a modification would be needed as a result of material misstatements in the financial statements. The best answers were able to provide meaningful analysis on whether the misstatements were material only or material and pervasive and credit was awarded for appropriate conclusions based on the analysis given. Answers were also awarded professional marks where detailed analysis supported conclusions provided.

Overall

The performance of candidates in these questions is broadly in line with past sessions. There continues to be a gap between candidates capable of demonstrating audit competence through strong application of knowledge and concepts to practical scenarios, and those who approach the examination as a factual exercise and fail to tailor their answers to the scenarios or do not show professional scepticism or commercial awareness. Many candidates also continue to show a lack of what should be assumed knowledge for materiality, ethics and auditor reporting and continue to produce answers of a standard below what is expected at AAA.

Practice of past questions will aid candidates in determining their knowledge gaps and give practice at applying their knowledge to the given scenarios. It is essential that candidates analyse their answers in comparison to the scenario specific explanations given in the model answers to understand the level of analysis which is needed in the AAA exam. This question practice needs to also be based on a good knowledge of the syllabus and must build upon both the Applied Skills level audit and financial reporting examinations and the Strategic Business Reporting (SBR) syllabus. Candidates are encouraged to ensure that their assumed knowledge in both areas is at an appropriate level before commencing their studies towards the AAA exam.

Candidates are encouraged to develop a wider appreciation of the significance of risks by reviewing published auditor's reports of listed companies where the auditor produces a key audit matters section. This will allow candidates to see real world explanations by auditors of why something was a specific risk to a client. There are also a significant number of accessible resources available which can help candidates put their studies at AAA into a more practical context. Resources can be found on the ACCA website and through the IAASB, and can help candidates better understand some of the practical challenges auditor's face.

The examining team also uses the list of examinable documents to try and highlight to candidates the resources which are being produced which may be beneficial to look at in more detail in order to supplement their studies, for example the IAASB or FRC discussion papers and guidance documents.

Information and guidance on professional skills marks for AAA is available as part of the study resources on the ACCA website.