

# audit and assurance assistance

## relevant to ACCA Qualification Paper F8

# auditing fundamentals

■ This article explains why some candidates do not achieve a pass standard in the Paper F8 exam, and shows how more marks can be obtained by a better understanding of the requirement verbs used.

The article is divided into three sections: an overview of why some candidates do not pass the Paper F8 exam, an explanation of how to obtain marks in knowledge and application questions within the exam, and an overview of how to use requirement verbs to identify the type of question being asked and, therefore, the style of answer expected by the examiner.

### OVERVIEW OF WHY CANDIDATES DO NOT PASS PAPER F8

The examiner looks at thousands of exam scripts at each exam session. From that review, general reasons why candidates do not pass Paper F8 can be identified. In overview, scripts tend to fall into one of three categories:

#### Bad fail scripts

This category includes papers which score less than 40%. Clear signs of failure in this category include:

- very brief answers to most, if not all questions. In other words, some of the basic knowledge is known, but there is little or no application of that knowledge to the scenario

- significant lack of understanding of audit procedures and the audit process. For example, where a question asks for audit procedures to be listed and explained, a typical answer is 'check the ledger' providing no indication of which ledger will be 'checked' or what the ledger is being checked for
- lack of exam practice. In a significant minority of scripts, it appears that candidates have not attempted any mock exams prior to the 'real' exam. Poor exam technique is identified as:
  - answering questions in a random sequence (for example, Question 1 Part (a), followed by Question 3 Part (b), followed by Question 2 Part (c), and so on)
  - spending far too much time on the first question, leaving little or no time for the final question
  - not writing in the required style (eg providing the answer in one long paragraph rather than splitting the answer up into individual points)
  - focusing on theory only with no attempt to use the scenario.

Overall, these scripts are also often too brief, contain insufficient detail, and show a lack of exam preparation to have any chance of obtaining a pass standard.

### Marginal scripts

Just below the pass standard, these scripts score 41% to 49%.

Candidates in this category are, to state the obvious, relatively close to passing. Typical reasons for not passing include:

- answering questions correctly, but not including a sufficient number of relevant points to obtain a pass standard in some questions
- having a good knowledge of auditing, but being unable to apply that knowledge to the scenarios provided in the question
- very occasionally, not answering all five questions.

In this marginal category, candidates are close to passing, and will pass with some improvement in their exam technique, by applying comments made to the scenario and, in a minority of situations, improving their knowledge slightly.

### Pass standard scripts

By way of contrast, scripts showing a clear pass standard:

- are usually well presented, and make appropriate use of paragraphs, sentences and table formats where appropriate
- normally, but not always, Question 1 is attempted first, candidates having used the 15-minutes' reading and planning time at the beginning of the exam to plan answers to this question
- are characterised by candidates clearly having very good knowledge of auditing, and are able to apply that knowledge to the question, clearly and succinctly. It is likely that these candidates are working in practice so that the listing, and provision, of explanation for audit procedures is well understood
- are usually fully completed – all five questions are attempted, even though some sections may not be answered that well. A few marks could normally be obtained from a valid attempt; obviously, no marks are awarded if the question is not attempted at all.

To summarise, most candidates appear to have the knowledge necessary to pass the Paper F8 exam. However, application of that knowledge to specific scenarios within the exam is not always clearly demonstrated, leading to a marginal or bad fail.

### SKILLS REQUIRED TO PASS PAPER F8

There are two separate skills that candidates must master to pass Paper F8:

- an appropriate knowledge of auditing
- the ability to apply that knowledge to the scenarios presented in the question.

Study, therefore, needs to focus on obtaining these skills although, as noted above, it is the skill of application that is the hardest to learn.

### Knowledge

Knowledge will always feature in the Paper F8 exam – primarily in Question 2, but also in smaller sections of other questions. Knowledge can be obtained from reading textbooks as well as attempting past

exam questions. Knowledge questions can be identified in the exam because they are not linked to a scenario and will normally include the requirement verbs 'list' or 'explain'.

In general terms, a knowledge question will have the requirement 'list' with the mark allocation of half a mark per point. Other knowledge questions will have the requirement 'explain', where not only a basic point is expected, but also some explanation of that point. So, for example, the question 'list audit procedures on going concern' could have the answer 'obtain cash flow forecast from directors'. However, the requirement 'explain audit procedures relating to ensure that the client is a going concern' could have the answer 'obtain the cash flow forecast from the directors and review this for indications of cash flow problems in the next 12 months'.

Understanding the question requirement verb is, therefore, critical to providing the appropriate form of answer.

### Application

Application means, literally, applying knowledge to the specific situation outlined in a question scenario in the Paper F8 exam. This is not a skill that can be obtained by reading a textbook; application can only be learned by attempting past exam questions and being shown, within a teaching environment, how to use knowledge in an exam answer. Try and think of 'application' as a three-stage process:

- 1 **Read the requirements** – the key requirement verbs to look for in application questions include 'explain' and 'describe' (see **Table 2** for more detail). For example, Question 3 in the December 2007 exam had the requirement: *Explain the issues which limit the independence of the internal audit department in Matalas Co. Recommend a way of overcoming each issue.*

The 'explain' requirement verb is saying that there will be one mark for explaining the issue affecting the independence of the internal auditor in the context of the scenario, and one more mark for recommending a way to overcome that issue. To gain the marks, candidates will have to identify the issue and then show why it is relevant. In other words, there is half a mark for finding the issue, half a mark for explaining the issue, and finally one mark for recommending how the issue can be overcome. The 'recommend' verb attracts one mark in this situation because it is inherently more difficult to think of an appropriate recommendation than to identify an issue from the scenario.

As this question was worth eight marks, this means that four separate and well-explained points are required to obtain full marks.

- 2 **Find the relevant points** (in this case the issues affecting independence). The question scenario includes plenty of relevant points to obtain maximum marks. For example, there was the comment: *The chief internal auditor reports directly to the finance director.*

This is an issue affecting independence because the internal auditor will be reporting on systems implemented or run by the finance director, who may, therefore, not accept criticism of those systems.

Many candidates fail Paper F8 because they cannot apply their knowledge to a specific scenario. The skill of application can be developed by practising past exam questions and from appropriate teaching. In the exam, identify the style of question by the use or absence of a scenario, and carefully consider the requirement verbs used in that question.

- 3 **Explain the relevant point in the answer.** It must now be shown why that point applies to the scenario.

The 'suggest' solution and the mark allocation for each point is shown in **Table 1**.

In other words in an application question, the answer must show why each point is relevant to the question requirement, and then it must provide a viable recommendation. The same process can be applied to other application-style exam questions.

### REQUIREMENT VERBS

Within a Paper F8 exam question, the requirement verbs will guide candidates as to the format of the answer, with the format changing depending on whether the question is knowledge or application. To be clear, application questions will always be preceded by a scenario. When answering a Paper F8 question, it is, therefore, critical to identify the type of question first before attempting to plan or write out an answer.

As far as possible, exam questions will be set using the mark allocations for different requirement verbs detailed in **Table 2**.

The list in **Table 2** is not complete but provides the rationale behind the use of requirement verbs in Paper F8. To provide an appropriate answer to a Paper F8 question, candidates need to identify the style of the question (either knowledge or application), then use the requirement verbs to identify the detail needed in each point of the answer.

### CONCLUSION

Many candidates fail Paper F8 because they cannot apply their knowledge to a specific scenario. The skill of application can be developed by practising past exam questions and from appropriate teaching. In the exam, identify the style of question by the use or absence of a scenario, and carefully consider the requirement verbs used in that question. ■

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**TABLE 1: COMMENT AND MARK ALLOCATION**

| Comment in solution  | Mark allocation                                      |
|--|--|
| The chief internal auditor reports to the finance director   | Half a mark for identifying the point                |
| This limits the effectiveness of the internal audit report, as the finance director will also be responsible for some of the financial systems that the internal auditor is reporting on | Half a mark for explaining the point                 |
| To ensure independence, the internal auditor should report to an audit committee   | One mark for providing an appropriate recommendation |

**TABLE 2: REQUIREMENT VERBS AND MARK ALLOCATION**

| Requirement verb  | Mark allocation  |
|---|--|
| <b>Knowledge-based questions</b>  |  |
| List/identify (with no supporting scenario – found in Question 2 and shorter sub-questions in other sections of the exam) | Half a mark per point made   |
| Explain   | Normally half a mark for the point and half a mark for the explanation of the relevance of the point (but no scenario)   |
| <b>Application-based questions</b>  |  |
| List (within the context of a scenario)   | One mark per point made because that point must be specific to the scenario and can be more difficult to make, compared to a 'list' requirement with no scenario |
| Explain   | Normally half a mark for identifying an appropriate point and half a mark for showing the relevance of that point to a scenario                                  |
| Recommend   | Normally one mark per point because providing a valid recommendation is more difficult than simply listing or explaining points                                  |
| Discuss   | Up to two marks per point depending on the quality of the discussion   |
| State   | Normally one mark per point as in the context of a list used with a scenario   |