

Examiner's report

FAU Foundations in Audit

June 2012

The ACCA logo consists of the letters 'ACCA' in a white, bold, sans-serif font, centered within a solid black square.

General Comments

A new format was introduced for the Foundations in Audit exam paper at this session although the paper continued to have two sections. Section A (worth 20 marks) contained ten multi-choice questions, each worth two marks, on topical areas from across the examination syllabus. Section B (worth 80 marks) contained 9 compulsory questions, 2 of which were worth 15 marks, 2 were worth 10 marks each and the other 5 were worth 6 marks each.

The majority of candidates answered Section A to a pass standard, by scoring at least 10 of the 20 available marks. A small minority achieved the 20 and a good number managed to score 14 or more. However, there was a disconcertingly high number of candidates who answered only a small proportion of the questions correctly – giving impression that they had not prepared adequately for the exam.

Generally, candidates' performance in Section B was comparatively weak (and in many instances - inadequate) as compared to that in Section A. Strong performance by individual candidates in Section A was often reflected in not quite so good a performance in Section B. This pattern in performance tended to prevail for most candidates, with an inadequate performance in Section A generally accompanying a relatively more inadequate performance in Section B. A significant number of candidates had performed inadequately in both sections, whilst there were instances of candidates who scored such a low mark that clearly they need to review their whole approach to studying for this paper, other unsuccessful candidates were often found to be wanting in several of the following respects with regard to examination technique:

- i) Not answering all of the questions. Simply put, if a candidate omits to answer just one of the six mark questions then they have given up the chance of obtaining 12% of the required pass mark for the paper (50%). The tenet of answering all the required questions is particularly important for all candidates if they wish to increase their chances of passing this paper. Good learning preparation, combined with good time management when sitting the exam are key to applying this.
- ii) Not following the requirements of questions – for example, not 'explaining' matters or issues when requested to do so, or by describing irrelevant or incorrect matters or issues.
- iii) Writing answers that are either far too brief and therefore lacking insufficient detail to justify any more than a small fraction of the available marks or, alternatively, writing very long winded answers containing totally incorrect or irrelevant material - and obtaining none of the marks available.
- iv) Presenting illegible answers (perhaps by rushing).
- v) Seemingly adopting a policy of making constant reference (to all manner of question requirements) about auditors' responsibility and incorrectly asserting that it is to 'ensure' that the financial statements or area under review show(s) a true and fair view. This assertion is totally incorrect and repeated reference to the auditors responsibility with regard to the 'true and fair' concept (irrespective of whether the concept is understood); merely adds to the impression that the candidate is not properly focused on the question requirements or is floundering to write valid points on relevant matters.

Virtually all candidates attempted all of the questions in Section A. Most attempted all questions in Section B, with varying degrees of success and with many answering in the order set. It was noticeable that a significant proportion of candidates answered seemingly in order of 'easiest' to 'hardest' questions as seen by them and this appeared to be a very successful strategy for many of them. In Section B candidates found question five to be the most challenging followed by questions four (b) and then question nine. It is of



particular concern that a relatively large number of students did not appear to be familiar with the term “accruals” at question nine.

Specific Comments

Section A

Most candidates answered this section to a pass standard. However, a significant number did not - with some submitting correct answers to only a few of the questions. The questions tested candidates' knowledge across the range of topics included in the syllabus and good all round knowledge of these was required for candidates to ensure a pass mark for the Section. In line with accepted wisdom and previous advice, candidates are reminded that the best technique to adopt when answering Section A questions is to work through them methodically in order, leaving any questions about which they are unsure and returning to them after attempting the later questions in the Section.

Section B

Question One

For a total of 15 marks over three parts, this question tested knowledge about internal control.

At part (a) candidates were required to explain the purpose of internal control and four marks were available for this. To obtain all four marks, candidates needed to focus on the reduction of business risks that concern the reliability of financial reporting, the effectiveness and efficiency of operations and compliance with laws and regulations. Very few candidates even mentioned “risk” in the context of internal control and relatively few focused on more than one of these components with a large proportion expressing the view that the purpose of internal control is to prevent or detect fraud and error. Given the importance of internal control to an entity and in the audit process, the generally poor quality of answers here was of concern. Part (b), for six marks, required candidates to identify three (of the five) components of internal control. A number of candidates obtained all six marks but a high number appeared to have no knowledge at all of these. There are seven generally recognised inherent limitations common to all internal control systems and for five marks there was a requirement at part (c) to identify and provide a practical example of just one. Whilst there were a significantly high number of good answers worthy of the full five marks, some candidates scored only half of these because they could not provide appropriate examples of the limitation identified. Others were not awarded any marks as they gave a range of totally incorrect answers including providing examples of inherent risk factors (in the context of audit risk) and provided examples of these.

Question Two

For a total of ten marks, over three parts, this question tested knowledge about the audit of inventory.

Answers to part (a) (i), requiring demonstration of knowledge on the purpose of the auditor's attendance at a client's year inventory count were mixed. There was a significant number of candidates who demonstrated only very brief knowledge of the topic and scored no more than two of the marks. At a (ii) - there was five marks available for explaining how the auditor should respond to a request to supervise a client company's year - end inventory count. Again, a range of answers were presented and of concern was the number asserting that this would be a perfectly acceptable solution to the company's staff shortage problem (indicating a lack of appreciation of the self-review threat and auditors' responsibilities generally). Part (b) of the question offered six marks for identifying two audit procedures to be carried out after *attending* the inventory count. Very few candidates were able to identify two, some identified only one and many others confusingly identified procedures which should always be carried out *at* the inventory count - therefore missing the opportunity to be awarded any of the available marks.



Question Three

For a total of ten marks over three parts, this question tested knowledge about the control objectives of a wages system and control activities that should be exercised over such a system.

There were four marks on offer at part (a) for stating two objectives, for example, to ensure that wages are paid only to existing employees and that wages are paid at the correct rate. A number of candidates obtained all four marks but a significant minority gave examples of control activities and obtained no marks for these. At part (b) the requirement, for three marks, was to explain the meaning of "segregation of duties". A lot of candidates presented very long winded, confused and often incorrect answers in response. Similarly at part (c), few identified the activities pertaining to wages transactions that should be subject to segregation of duties - namely the authorisation, processing/ recording and payment of wages to employees. Consequently, most candidates scored less than two of the marks available with many not scoring any.

Question Four

For a total of ten marks over two parts, this question tested knowledge of 'going concern'.

Candidates tended to score most/ all or few / none of the four marks available at part (a) for their explanation of the 'going concern assumption.' However only a very small minority appeared to have much appreciation at part (b), of the auditor's evaluation of management's assessment of their company's ability to continue as a going concern. The requirement was to identify and explain just two - for six marks. Matters to be considered include the period used by management in the assessment, the quality of the budgeting and forecasting systems used, the sensitivity of budgets and forecasts and the availability of borrowing facilities to the company. Only a minority of candidates included such relevant matters or similar. Many simply listed the various indicators flagging that a company may have going concern problems, but these were irrelevant to the requirement of the question.

Question Five

For a total of six marks, the question tested knowledge of the management of an audit.

Candidates were required to identify and explain two factors that determine the nature, timing and extent of the direction and supervision of the audit team and the review of their work audit. Whilst a minority of candidates wrote concise and correct answers obtaining all of the marks available, many provided rambling, muddled answers introducing matters which bore no relevance to the question asked. There was an expectation here for candidates to display a level of understanding of the audit process, rather than simply reproduce factual information.. Reference to, and explanation of, matters such as audit risk, timing of the publication of the audit financial statements or the experience and qualification of audit team members would have sufficed to obtain all six marks.

Question Six

For a total of six marks, the question tested knowledge of the use of flowcharts in an audit engagement

Well prepared candidates scored all six marks by stating two advantages and one disadvantage of using flowcharts to record information systems and internal control. On the contrary there were a significant number of inadequately prepared candidates who struggled with the requirement.

Question Seven

For a total of six marks, over two parts, the question tested knowledge of the different categories of audit tests.

At part (a) there were three marks available for a definition of "a substantive procedure" and a at (b) a further three for a definition of "a test of control". These procedures are of absolute importance in the audit



process. However, many candidates either mistook one of the procedures for the other, or wrote answers containing numerous incorrect assertions. Overall performance on this question was particularly unsatisfactory and candidates for future FAU papers should ensure that they are fully versed as to why auditors carry out tests of control and substantive procedures and the determinants and mechanics of each.

Question Eight

For a total of six marks, over two parts, the question tested knowledge of trade receivables circularisations.

Part (a) offered two marks for explaining what is meant by a positive circularisation and a further two for a negative circularisation. Most candidates scored at least two of the marks with many scoring all four, although there was a significant number who confused one for the other or who simply had no idea, asserting for example, that a positive circularisation is one sent to receivables with debit balances and a negative circularisation is one sent to those with credit balances. Again, at part (b) the quality of answers varied from those obtaining the full two marks (for identifying two classes of trade receivables account that should be included in circularisation), to those who were clearly unprepared for the question.

Question Nine

For a total of six marks, the question tested knowledge of the audit of accruals.

This question presented few problems for a minority of candidates – however other candidates struggled in varying degrees, to provide two procedures that should be used to audit accruals. There is of course a range of procedures to choose from, some providing more reliable evidence than others. However, in order to choose the appropriate procedures one must first have an appreciation of the accruals concept generally and the nature of specific accruals. A significant number of candidates were thoroughly confused by the term ‘accruals’ (for example, by making reference to sales revenues). Clearly those candidates lost the opportunity to any marks available for this question.