

# Examiner's report

FAU Foundations in Audit  
December 2014

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## General Comments

The examination consisted of ten objective test questions in Section A, worth 20 marks and nine questions in Section B worth 80 marks. The marks in section B were allocated to two 15 mark questions, two 10 mark questions and five questions comprising 6 marks each. All questions were compulsory.

The vast majority of candidates attempted all questions. However, it was apparent that a significant minority of candidates struggled with many of the questions in Section B, as their answers to the requirements of each question were either too brief or overly long containing few, if any, relevant points.

Time pressure issues did not appear to be an issue for the overwhelming majority of candidates. However, it was evident that a significant number did waste time by adopting an approach of writing answers that contained all they knew about the specific areas of the syllabus. This approach is not to be recommended as answers will only obtain marks where the points made are relevant to the requirement as presented.

The objectives of this exam paper are to assess the candidate's level of understanding in terms of knowledge of the areas covered in the syllabus and, also, the application of basic auditing concepts and techniques in given situations. Encouragingly, some candidates prepared well for the exam, scoring highly on all questions and displayed cogent understanding across both knowledge and application aspects. Other candidates, who achieved a pass, demonstrated sufficient levels of understanding on enough questions to achieve an overall pass mark. Of concern was the significant number of scripts that were not of pass standard as many candidates appeared to have only surface level knowledge and a very limited appreciation of the application aspects of the topics examined.

A number of common issues arose in candidates' answers - comprising:

- Failing to answer in accordance with the specific requirements of questions, for example providing an insufficient number, or providing too many examples, in connection with a specific issue, or by writing about an issue which had little or no reference to the question requirement.
- Providing answers which are far too brief - in particular failing to provide sufficient explanation of a point, where required.
- Poor time management, by providing overly long answers, which may or may not contain relevant points amongst a surfeit of other superfluous points.
- Poor layout of answers and illegible handwriting.

## Section A

1. The majority of candidates attempted all questions in this section, with most scoring more than half of the 20 marks available. It was apparent that the vast majority of candidates who scored very highly in this section - indicating high knowledge levels of the topics tested - also achieved a very good mark in Section B of the paper. Conversely, candidates who achieved a low mark in Section A, tended to also a score a low mark in Section B. In Section A, the following question, was answered incorrectly by the majority of candidates:

Which of the following controls would provide assurance that wages are paid to employees of a company, only for work carried out?

- (I) Written authorisation from an authorised personnel officer in respect of employee additions to and deletions from the payroll, and in respect of changes to rates of pay.
- (ii) Segregation of duties between the processing of the wages payroll and the entering of the wages transactions into the accounting records.
- (iii) Segregation of duties between the authorisation of employee clock cards and the processing of the wages payroll.

Of these, only procedure (iii) would provide the required assurance. Many candidates incorrectly answered that this procedure and either procedure (i) or (ii) would also provide the required assurance. Control 3 is the only option that actually deals with ensuring that no extra time/hours can be claimed and therefore ensures that staff can only be paid for hours actually worked.

Another question - on the audit objective of a specified audit test on inventory, was also answered incorrectly by the majority of candidates. This question was:

Which of the following procedures carried out by an auditor is a test primarily for valuation of inventory?

- (I) Checking certification of inventory held by third parties to authenticate inventory records.
- (ii) Checking correct treatment of slow-moving and obsolete items.
- (iii) Checking actual quantities of inventory to those recorded by count team members.

Of these, only procedure (ii) would meet the required valuation objective - as the others provide assurance primarily about the quantity of inventory.

Candidates should be aware that a common method of testing their understanding of specific control procedures and audit procedures, is to ask questions about the objectives (purpose) of these. It is apparent that a significant number of candidates have little appreciation of such objectives, and it is strongly recommended that focus be applied to them when preparing for future audit examinations.

In line with previous guidance provided, candidates are reminded not to underestimate the difficulty of multi – choice questions in this paper. A broad level of knowledge and continuous practice are vital ingredients to achieving success, as is the ability, in the exam, to work through the questions



methodically and to leave, and come back to questions that cause difficulty. Candidates are reminded that the pattern of correct answers, in terms of how options or alternatives are arranged, is arbitrary from one exam session to the next.

## Section B

Only a small proportion of candidates answered each question to a good standard. Of the rest, a disconcertingly high minority struggled on all or most of the questions, resulting in an overall mark that was well below that required to achieve a pass. Three questions, in particular, caused problems for a relatively high number of candidates:

In question three for 10 marks, which centred on the auditor's risk assessment procedures, very few candidates were able to:

a) state two reasons why the auditors of a (coach hire) company needed to have an understanding of a specified the company and its environment; and

b) identify two specific operational matters of the subject company, that, the new auditors should consider when obtaining an understanding of the company and its environment and provide an explanation of their relevance to the auditors.

The fact that the subject company was engaged in coach hire activity was almost irrelevant at part (a). This is, because there is a generic requirement for auditors to gain such an understanding to identify and assess the risk of material misstatement in the financial statements, to enable them to carry out adequate planning procedures - to obtain sufficient audit evidence to meet audit objectives and to provide a framework for exercising audit judgement throughout - including the setting of materiality levels. This point was lost on a large number of candidates, who simply did not provide any meaningful answer, or proceeded to provide rather long – winded answers stating invalid reasons or by providing answers more akin to those required in part (b).

In part (b), identifying and explaining cogently about just two of a range of matters, would have obtained all of the six marks available. For example: details about the company's fleet of vehicles including whereabouts, and financing and depreciation methods, the nature and extent of the joint venture arrangements with hotels, the geographical areas of the company's operations, key customers and suppliers and employment arrangements pertaining to the company's work force. A good number of candidates did pick up on the importance of obtaining detailed knowledge about the company's vehicle fleet, and obtained due credit for this. Some focused on the joint venture arrangements and others on geographical areas – receiving similar credit. However relative few focused on other relevant operational matters, with a sizeable minority writing irrelevantly about general internal control matters.

Question six offered 6 marks, for describing TWO tests of control which an auditor may perform when auditing the bank and cash area of a retail company, selling goods on cash and credit. Of concern was that exceptionally few candidates could provide two, and many could not even provide one. Most answers contained at least one substantive procedure (test of detail) – leading to the

conclusion that most candidates at this sitting were unable to differentiate between the latter and a test of control.

Components of the audit risk model are always likely to feature in this exam paper, because auditors are obliged to adopt a risk – based approach to every audit engagement. Consequently, candidates should not have been surprised to find a six mark question devoted solely to inherent risk. Question 8, centred on a limited company operating a multi – site hotel and restaurant chain, required candidates to state three reasons as to why the company’s auditors should assess the area of non – current assets in the company’s financial statements as being one of high inherent risk. This was perceived to be a very straight forward requirement, which should not have presented a problem to reasonably well - prepared candidates. Notwithstanding, relatively few candidates’ answers were of a pass standard, and there were varying reasons for this. The primary reason was because a high number of candidates confused inherent risk factors with those pertaining to control risk and detection risk. For example the fact that assets were unlikely to be regularly checked, for existence, by independent employees in the company (control risk), and the fact that the auditor would be unable to visit every remote location, to check for existence and completeness (detection risk ). Generally candidates missed the opportunity to obtain the relatively easy marks available by stating inherent risk factors such as incorrect classification between capital and revenue expenditure, the non - reporting of the disposal of non – current assets at remote locations and the fact that, in such a company, there is a particularly high inherent risk of the misappropriation of portable non – current assets.

## Conclusion

This is foundation level auditing paper with examinable topics from quite a broad ranging syllabus. To achieve a ‘pass’ in the exam, candidates need to ensure that they work steadily learning and revising from the recommended texts, and focusing on the core areas of the syllabus, but remembering that non – core areas of the syllabus are likely to be examined over a range of sittings. It seems apparent from the results of this sitting that a large number of candidates were not properly prepared for the exam, having only surface level knowledge of key areas of the syllabus and poor exam technique. It again follows, that to increase the probability of achieving a pass standard in the exam, candidates must carry good levels of core knowledge into it and read broadly over a period of time to ensure adequate levels of non – core subject knowledge is retained

For future sittings, candidates are reminded of the need to adopt a structured approach to learning. Of particular importance is the need to leave sufficient time for revision and question practice immediately prior to sitting. Due to the fact that candidates for this exam are required to learn and appreciate the importance of various technical procedures carried out during the audit process , it is extremely difficult to pass the exam by relying on last minute learning and cramming. Notwithstanding that there was a good number of candidates who displayed very high levels of knowledge and basic application principles, by attaining excellent marks; a significant minority obtained low marks - indicating that they did not properly engage with the basic tenets of good learning practice and exam preparation- as explained above.