

Examiner's report

FAU Foundations in Audit

December 2015

The examination consisted of ten objective questions in Section A, worth 20 marks overall. In Section B there were nine questions 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 and time pressure problems did not, generally, appear to be an issue. However, a significant number of candidates struggled with most or all of the questions in Section B, as a consequence of an apparent lack of knowledge and poor exam technique.

A number of common issues arose in candidates' answers:

- Failure to answer in accordance with question requirements. For example, providing an insufficient number, or providing too many specified examples, or by writing about irrelevant issues.
- Providing answers which were overly brief.
- Poor time management, resulting in overly detailed answers – containing many irrelevant points.
- Illegible handwriting and poor layout of answers.

Section A

The majority of candidates attempted all questions in this section, with most achieving a pass mark. Given the breadth of the syllabus for this paper, the MCQ questions always cover a broad range of issues, so it is imperative that candidates' exam preparation time includes practising numerous MCQ questions across the range. The recommended exam technique for this section is to work through the questions, in order, leaving any questions about which there is uncertainty and returning to them after completing those found to be easier.

The question below, from this section, was answered incorrectly by the majority of candidates. The question required candidates to have an understanding of the 'completeness' assertion, as applied to inventory, and of the substantive procedures that an auditor may use to test it.

Which of the following substantive procedures should an auditor carry out, to obtain assurance over the completeness of inventory as reported in a company's financial statements?

- (i) Analytical procedures based around inventory.
- (ii) Checking inventory cost records to purchase documentation.
- (iii) Agreeing items test checked at the inventory count to final inventory sheets

- A (i) and (ii)
- B (i) and (iii)
- C (ii) only
- D (iii) only

The correct answer is B. While the procedures described at (i) and (iii) are completely different in nature, they are both effective in providing audit assurance about the completeness of inventory. Analytical procedures can be used to identify unusual movements or fluctuations which may imply that the balance is not complete and agreeing the items counted at the inventory count to the final sheets allows the auditor to confirm that those items have been included at the year end. The procedure at (ii) is used to test the 'valuation' assertion. A large



number of candidates thought that the procedure identified at (iii), only, was correct and so chose D - indicating poor appreciation as to how substantive analytical procedures can be used by an auditor.

Section B

It was evident that, in the main, individual candidates' performance in Section A was consistent with that in Section B, so that those who scored highly in the former also did well in the latter. Conversely, a significant number of candidates obtained low marks in both sections.

It was evident that candidates struggled with the questions about tests of control - with many illustrating a lack of understanding of the purpose and nature of such tests, as contrasted to tests that are carried out as substantive procedures. This lack of understanding resulted in many candidates not being able to provide examples of tests of control over non - current assets and credit control/ sales accounting systems.

It was pleasing that many candidates displayed cogent understanding of the threats to a professional accountant's compliance with the ACCA *Code of Ethics and Conduct* - reflected in a lot achieving most of the ten marks available for a question in this area. However, a significant number of candidates had either a complete lack, or a very limited understanding of the conditions which must exist for auditors to be successfully sued for negligence, and scored few, if any, of the marks available for a question on that topic.

It was encouraging that questions on audit risk, and internal control objectives (of a non - current assets system) were answered well, by a good number of candidates; particularly because these areas feature regularly in this exam. However a significant proportion of candidates achieved only low marks on questions around the purpose and nature of specific substantive tests on inventories (cut - off) and receivables (circularisation). Candidates are reminded that the ability to provide and adequately describe audit procedures relevant to a particular context is a key area of the syllabus and question practice in this area is crucial.

Finally, a lot of candidates struggled to provide pass standard answers to a question focusing on the circumstances in which an auditor may be unable to obtain sufficient appropriate audit evidence, so resulting in a modified audit opinion. This should not have proved problematic for reasonably well prepared candidates.

Conclusion

Auditing is a complex subject and by nature is practice - based - requiring exam candidates to have a broad based knowledge and understanding of the regulatory framework for auditing, internal control, professional judgement considerations and of the practical auditing techniques available to and used by auditors. Such understanding, and success in this exam can only come from focused intensive study of the syllabus areas , and by structured revision incorporating extensive question practice - using exam -type questions under exam simulated conditions .

From the commentary above, it is evident that at the December 2015 sitting, reasonably prepared candidates coped well with the regularly examined (Section B) topics of internal control and audit risk. Although, it should be noted that a significant number of others struggled with the questions on these topics. Additionally, a significant tranche struggled with questions in the areas of tests of control (generally), substantive procedures and the auditor's report. To improve performance it is recommended that future candidates absorb these specific points, in particular; together with the common issues arising- as detailed in the opening section of this report.