



# Examiner's report

## FAU Foundations in Audit

### December 2017

The examination consisted of ten objective test questions in Section A, worth 20 marks overall. In Section B there were nine questions and 80 marks overall. These were allocated as 15 to both questions 1 and 2; 10 to both questions 3 and 4 and 6 marks to each of the remaining questions. All questions were compulsory.

Time– pressure in the exam did not appear to be an issue generally, with the vast majority of candidates answering all questions. The number of candidates answering Section B of the paper to a pass standard was particularly encouraging. However, Section A was not answered nearly as well and, whilst the questions included there were always going to be appropriately challenging, it was disappointing to note the number of candidates who provided incorrect answers to straight forward questions, on core parts of the syllabus. It was apparent that a significant number of candidates were not well prepared for the exam, – scoring low marks throughout the paper. Also of note was the number of overly brief, and consequently inadequate, answers submitted to “describe” ‘discuss’ and ‘explain’ question requirements in Section B. In contrast, many other answers were not of pass standard simply because they were too long containing only a few mark gaining points, amongst a range of other irrelevant points.

Candidates for future exams are encouraged to take note of the following points - considered to have been the major contributors for the lack of success in this exam:

- Failure to meet the requirements of questions by providing answers containing irrelevant points, because the requirements were not read properly.
- Writing vaguely around a specific topic and expanding into others, about which the candidate has knowledge, but which has little relevance to answering the specific requirement of the question.
- Provision of overly brief, uninformed answers with little meaning.
- Inability to provide examples or illustrations in support of explanatory points.
- Incorrect referencing to, and out of context use of technical terms.
- Poor layout and structure of answers, and illegible hand writing.

#### **Section A**

Almost without exception, candidates attempted all questions in this section but, as mentioned above, there were a disappointing number of poor submissions and incorrect answers. The question with the lowest pass rate in this section was as follows:

**Which of the following statements is correct?**

- A *Matching a sample of sales invoices back to goods despatch notes is a test for Completeness of the reported sales.*
- B *Agreeing non-current assets on the factory floor back to the accounting records is a test for the existence of reported non-current assets*
- C *A review of unmatched goods received notes is a test for the presentation of reported trade payables/liabilities.*
- D *A review of the profit or loss on the disposal of non-current assets is a test for the reasonableness of the depreciation policy.*

**D** is the correct answer. The procedure mentioned at A is a test for occurrence of sales transactions; that at B is a primary test for completeness of non - current assets and the procedure at C is a test of completeness of trade payables. Material losses incurred on the disposal of non – current assets may be an indication of an overly conservative depreciation policy, whereas material profits may indicate an overly aggressive policy.

Whilst a significant number of candidates answered the question correctly, high numbers of the others opted for option A or B as being the correct answer. Taking account, also, of the minority of candidates who chose option C, it is apparent that, generally, candidates were weak in their ability to apply correct, specific audit procedures to obtain assurance about specific management ( financial statement ) assertions. This is of some concern given the importance of assertions to the audit process and the use of them by auditors when gathering audit evidence. Future candidates for this exam are reminded that they should ensure good knowledge of this part of the syllabus , because it is almost inevitable that it will be tested in some fashion.

**Section B**

On the whole, candidates' performance in this section was encouraging , with several questions, or parts thereof, being answered to, at least , a satisfactory standard by a large majority of candidates. However, there were also a significant number of low scoring submissions from candidates.

An integral part of the risk – based approach to an audit is the auditor's ascertainment, recording and evaluation of the internal control of the entity subject to audit . One question focused on this, requiring an explanation of the similarities and differences between an internal control questionnaire (ICQ ) and an internal control evaluation questionnaire (ICEQ ). Candidates also had to provide two examples of key control questions for inclusion in an ICEQ. Many struggled to clearly explain the differences between the documents with significant numbers mistaking one for the other, incorrectly asserting that the documents are part of an entity's internal control or that they are used by 'management'. Similarly, very few provided two correct examples of key control questions. Another question, in the area of internal control, required knowledge of the concept of deficiencies in internal control. Many answers lacked the

breadth and depth required to obtain a good mark. Given the importance of the various examinable aspects of internal control, the overall standard of answers to this topic as tested in this exam, was relatively weak. Future candidates should endeavour to ensure that they fully prepare for possible 'internal control' questions.

As previously, this exam comprised an appropriate balance of 'knowledge' and 'application' based questions, and whilst it was pleasing that candidates scored good marks on both, it was disappointing that some straight forward knowledge based requirements were not well answered by the majority of candidates. For example, in response to a requirement to state and explain two reasons why an auditor can provide only 'reasonable assurance' that a company's financial statements are free from material misstatement, many candidates' answers provided rather convoluted answers, too narrowly focused on sampling. Other valid points for inclusion comprised, for example, the inherent limitations of internal control, audit evidence and professional judgement. A question requiring basic knowledge and application of specified application controls relating to the computer processing of factory wages, was answered poorly, a point of concern given the extensive use of ICT in the work place. Candidates need to be aware that as auditing students, they need to be familiar with the applicable examinable internal control and audit processes in a computer – based environment.

A further question, in this section had three parts, respectively testing knowledge of non - current asset internal control objectives, expenditure classification and audit test objectives. Whilst the standard of the answers submitted to the former two parts was mixed, with a significant number struggling to identify three specific internal control objectives; a high number could not describe two audit procedures used to obtain assurance on the ownership assertion, with many identifying existence tests as ownership tests.

Finally from the answers submitted to a question, requiring two advantages and two disadvantages of non – statistical sampling, it is apparent that many candidates have only very limited knowledge of 'sampling' generally. Given the regularity of questions on sampling in this exam, future candidates should ensure that they revise this area thoroughly.

## **Conclusion**

The exam tested knowledge and application across a range of, mainly core topics, from across the syllabus. Although well -prepared candidates achieved a good or very good mark in this exam, a high number of others appeared to be inadequately prepared and as a consequence they were unable to achieve a mark of pass standard. Candidates who did not attain a pass in this exam, should think carefully and analyse the reason(s) for their lack of success. They should remember that to help ensure success, they will need good knowledge of a series of linked processes, and that the best way to embed this knowledge is by conscientious study, question practice and a structured programme of revision.

Although a foundation level exam, due to the highly technical nature of auditing as a subject, and a lack of familiarity with it, candidates generally need to apply themselves diligently to a thorough programme of study and revision, in order to ensure examination success.