

Examiner's report

FAU Foundations in Audit

June 2013

The ACCA logo is a black square with the letters 'ACCA' in white, bold, sans-serif font.

General Comments

The examination consisted of ten objective test questions in Section A worth 20 marks in total, and nine questions in Section B with two questions each worth 15 marks, and a further two questions each worth 10 marks and finally five questions each worth 6 marks. All questions were compulsory.

The vast majority of candidates attempted all questions. However in Section B many answers submitted were of unsatisfactory quality, often being extremely brief, or simply not relevant to the question requirements. There were no indications that time pressure was a problem to candidates generally.

Common issues arising in candidates' answers in Section B included:

- An apparent failure to read the question requirement carefully - resulting in answers that contained irrelevant points and only few of the available marks being obtained.
- Poor presentation of answers, often resulting in answers that were too brief (on many occasions comprising three words or less) or, lengthy answers often up to a page long but containing very few relevant points.
- Out of context use of technical terms such as "sufficiency" (of audit evidence) in answers, in an apparent attempt to obtain marks for their inclusion, when in fact such inclusion merely weakens answers.
- Answering with more than the required number of points.
- Illegible handwriting - making difficult to award marks for points which could well be of merit.

Specific Comments

Section A

The majority of candidates made a satisfactory attempt in this section, and it was encouraging that a significant majority answered to a pass standard. This section is worth 20% of the total mark for the paper and there was a strong correlation between individual candidates scoring well in this section and in section B. As with all MCQ type tests it is imperative that candidates spend time practising MCQ style questions in preparation for the real exam. All 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 there is uncertainty and returning to them at some stage in the time allowed. Candidates are reminded that correct answers in Section A are always set to a random order.

In this section, a large majority of candidates had difficulty with the following question:

Which of the following are analytical procedures?

- (i) Checking a monthly payroll calculation.
- (ii) Reviewing purchase ledger control account reconciliation.
- (iii) Comparing monthly sales totals from one month to another.
- (iv) Calculating the inventory days holding period.

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

The correct answer is D. Analytical procedures may be defined as those procedures which evaluate financial information through analysis of plausible relationships among both financial and non – financial data. An alternative and often quoted definition is that analytical procedures are those procedures which answer the question “do the figures and information being reviewed make sense?” Candidates should have seen that the procedures at both (iii) and (iv) match with these definitions.

The procedures of checking a monthly payroll calculation and reviewing purchase ledger control account reconciliation are not analytical procedures. Both of these could be tests of control or substantive procedures depending on the audit objective carried out by the recalculation, reperformance or inspection methodologies of obtaining audit evidence.

Section B

Generally, candidates scored well on the audit evidence questions testing their knowledge of the methods auditors adopt to obtain audit evidence, and of the specific classes of account that should be included in a trade receivables circularisation. Similarly, a significant number of candidates appeared to be at relative ease with a question focusing on a company's control environment, although many confused simplistic accounting procedures with Human Resource procedures in this respect.

It was noticeable, on one 6 mark question, that candidates continue to be confused with the concept of written representations from the directors of a company to the auditor. In response to a requirement to provide examples of such representations, a significant number of candidates provided examples of external confirmations - including a trade receivable circularisation letter, a bank letter and an expert's written report.

Given that this is a foundation level paper, candidates should expect to be tested regularly on the meaning of terms that underpin the audit process. At this session, candidates were asked to define substantive procedures and misstatement but many were unable to do to a pass standard. A relatively high number of candidates answered along the lines that substantive procedures were used to test the internal controls of a company and a significant number submitted unclear or basic definitions of misstatement.

Whilst it was encouraging to note that there were some satisfactory answers submitted to the questions on the audit of non – current assets and audit planning (each carrying a total of 15 marks), it was apparent that many candidates struggled with specific important aspects of each question. A continuing problem is that a large number of candidates do not understand the difference between a control objective and a control procedure. For example, at this sitting many mistakenly identified the necessity to record assets in a non – current assets register as a control objective. Candidates should note that such recording is just one of a number of procedures that should be adopted to meet the objective that non – current asset transactions are recorded promptly, accurately and completely in the accounting records. Similarly keeping non – current assets in a locked building is not in itself a control objective. It is a procedure to help ensure that non – current assets are properly secured. Referring to a question with a requirement to describe two audit procedures to check motor vehicle additions, candidates who simply described procedures to check brought forward vehicles and disposals during the period failed to pick up relatively easy marks.



Candidates should ensure that they understand the purpose and nature of an overall audit strategy and audit plan. At this sitting, only a minority of candidates appeared to have a full and clear understanding of audit strategy and audit plan. Similarly it was apparent that in response to a question about the direction of audit resources, a significant number of answers did not make the connection with the components of the audit risk model.

Conclusion

Most of the marks in this paper were again (and will continue to be), allocated to 'knowledge' aspects of the Foundations in Audit syllabus, and it is apparent that most candidates performed better with knowledge based questions, than scenario based questions which test application skills. This is because the majority of candidates have little (if any) practical auditing experience and also because by their very nature scenario based questions often require candidates to consider and display understanding over a range of auditing issues.

Given the above it is vitally important that in working towards the exam, candidates ensure they have a good understanding of basic auditing concepts including audit risk, internal control, audit evidence and the auditor's report including the differing types of modified opinion. This understanding should include the ability to accurately define or explain the meaning of key terms – for example 'audit objective', 'audit procedure', 'test of control', 'substantive procedure', 'inspection', 'observation', 'qualified opinion' and 'disclaimer of opinion'. Such level of understanding represents the foundation from which relatively straight forward knowledge based marks can be obtained and from which practical application skills can be developed by practising exam standard scenario based questions.

As indicated in the introductory part of this report the examination technique of a large proportion of candidates was weak. It is therefore considered worthwhile for future candidates to practice answering exam standard questions in time controlled conditions.