

# Examiner's report

## FAU Foundations in Audit June 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 in both section A and B, albeit some of the answers submitted in Section B were disproportionately brief in response to the question requirements. While it was not immediately apparent that time pressure was an issue for candidates generally, this may have been the reason for the brevity of some candidates' answers. It did however seem, that a significant number of candidates did not possess the detailed knowledge required with respect to most, or all, of the topics examined.

A number of common issues arose in candidates' answers:

- Failing to answer in accordance with the specific requirements of questions, for example providing an insufficient number of examples in connection with a specific issue, or by writing about an issue that had little or no relevance to the part of the syllabus being tested.
- Poor time management - by providing overly long answers which while meeting question requirements contained a number of superfluous points.
- Poor layout of answers and illegible handwriting.

### Specific Comments –

#### Section A

The majority of candidates attempted all questions in this section, with a good number scoring more than half of the 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.

In line with previous guidance provided, candidates are reminded not to underestimate the difficulty of multiple 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. This focus on exam technique will allow candidates to better manage their time in the exam and ensure that they are able to get through all of the questions in the time allocated. 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.

The following questions, from this section, were answered incorrectly by the majority of candidates.

**Which of the following management assertions are relevant to presentation and disclosure in the financial statements?**

- (i) Accuracy and valuation.
- (ii) Cut-off.
- (iii) Existence.

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

D. (iii) only

The correct answer was **A**. Assertions are a key component of the audit process and questions relating to them feature regularly in this exam. Candidates continue to struggle to fully comprehend this topic, as was evidenced from the range of answers submitted. The majority of candidates identified cut – off as being an assertion relevant to presentation and disclosure resulting in a significant number selecting option B. It should however be evident that this particular assertion has specific relevance only to ‘transactions and events for the period under review’. If ‘cut –off’ procedures are exercised accurately with respect to classes of transactions and events for the period, and appropriate tests are carried out on account balances at the period end, then it follows that the information carried forward for inclusion in the financial statements need be checked only for ‘accuracy and valuation’ and the other relevant assertions of completeness, classification and understandability and occurrence and rights and obligations.

**Which of the following are examples of “reperformance” in the context of procedures carried out by an auditor to obtain audit evidence?**

- (i) Carrying out arithmetical checks of copy sales invoice documentation.
- (ii) Carrying out an end of year bank reconciliation.
- (iii) Extracting a trial balance from the general ledger of the audit client,

- A (i) and (ii)
- B (ii) and (iii)
- C (i) and (iii)
- D All of the above

In order to answer correctly, candidates needed to have good understanding of the terms ‘reperformance’ and ‘recalculation’ and the differences between these techniques. Broadly, the former is the ‘independent execution of procedures or controls that were originally performed as part of the entity’s internal control’ and the latter is “checking the mathematical accuracy of documents and accounting records’. Using these definitions, the correct answer is **B**.

## Section B

A significant number of candidates did not appear to be properly prepared for the questions contained in this section, and achieved only a small fraction of the marks for all, or most, of the questions. Four questions, in particular, caused problems for candidates.

In question one on internal control – for 15 marks, many candidates did not know the difference between a substantive procedure and a test of control. Similarly, a disappointingly high number of candidates did not make the link between significant deficiencies in internal control (leading to) high control risk, and the need to increase substantive procedures in order to reduce detection risk to achieve a suitably low level of audit risk. Candidates are reminded that a good grasp of basic audit concepts, such as audit risk, is necessary to be able to tackle this paper.

Most candidates did not answer to pass standard question two, again for 15 marks, which centred on testing knowledge in relation to the purpose and nature of an interim audit, and the use and benefits of computer-assisted audit techniques (CAATs). Many merely commented on the logistics of the interim audit, ie it occurs prior to the year end, rather than answering the requirement which was looking for a more detailed discussion of the testing that takes place at this stage including the testing of internal controls. In the requirement relating to CAATs, many candidates were unable to explain the most basic aspects of test data techniques (for example -



that they use 'test data' ) and were unable to suggest any practical examples of how an audit firm may use audit software to assist in the audit of sales and trade receivables.

Professional scepticism is a key component of the audit approach, and has been the subject of much debate in recent years. It was therefore disappointing, that many candidates were unable to obtain at least half of the 6 marks available, in a part of question four that was testing elementary knowledge of the topic. The balance of 4 marks, in the same question, was for a display of basic knowledge on the topic of professional competence and due care. It was concerning that many candidates offered muddled explanations of the principles, restricting the credit that could be awarded.

One of the questions offered 6 marks, for stating three key control questions for inclusion on an internal control *evaluation* questionnaire pertaining to sales made on credit terms. A large number of candidates proceeded to list three questions that might be found on an internal control questionnaire, so losing the opportunity to obtain, what were considered to be, some relatively straightforward marks.

Finally, while it was pleasing to note that a significant number of candidates were able to answer, to a pass standard, a question on the specific audit objectives of specified substantive procedures carried out on non – current assets, it was disappointing that others were clearly not at ease with the topic – being unable to obtain any of the 6 marks available. Candidates are reminded that knowledge of substantive procedures is imperative and should continue to focus on being able to identify relevant assertions from specified audit procedures.

## Conclusion

The paper continues to be broad-ranging and candidates should expect to be tested on core areas of the syllabus interspersed with a variety of the non-core areas in every session. From this it 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 to ensure adequate levels of non-core subject knowledge is retained. It seems that a significant number did not follow these basic principles of preparation and as a consequence did not answer the paper to a pass standard.

To facilitate success in this exam, candidates need to adopt a structured approach to learning – leaving adequate time for good quality revision and question practice immediately prior to sitting. Candidates should realise that this is not a subject that lends itself to last minute cramming and appropriate time devoted to question practice is a key aspect to learning and absorbing the key aspects of the syllabus. While there were a significant and pleasing number of excellent performances in this exam, indicating very high levels of engagement with the learning process; it seems that a disappointingly high number of candidates did not properly engage with the basic principles of good learning practice and exam preparation.

It is vitally important that candidates have a good understanding of the basic auditing concepts, including but not limited to, audit risk, internal control and audit evidence. This understanding should include the ability to provide definitions of key terms as requested and to provide appropriate examples. This level of understanding represents the foundation from which knowledge based marks can be obtained and from which practical application skills can be developed.