



Examiner's report

FAU Foundations in Audit

June 2015

General Comments

The examination consisted of ten objective test 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 did not appear to be an issue for most. However, it was apparent that a disappointingly high number of candidates struggled with most or all 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.

It was notable that while most low scoring candidates provided very sparse answers to Section B questions, others wasted time and effort by seemingly adopting an approach of writing answers that contained all they knew about specific areas of the syllabus, in the hope that some of what they wrote would be relevant to the requirement. This is very poor exam technique, and not recommended, as answers will only obtain marks where the points made are relevant to the requirement as presented.

Pleasingly, there was a significant number of candidates who performed very well in the exam - scoring high marks in Section A and on all or most of those in Section B.. Other 'pass level' candidates demonstrated sufficient levels of understanding on enough questions to achieve an overall pass mark. However, it was apparent that a significant minority of candidates were totally unprepared for the exam, with many demonstrating only surface level knowledge and poor appreciation of the application aspects of key aspects of the syllabus examined in this paper.

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. Candidates should be aware that they are unlikely to obtain all of the marks available for a question where they provide only extremely brief (one or two word) answers.
- Poor time management, by providing 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

The majority of candidates attempted all questions in this section, with many performing well in this area. 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.

Historically, exam candidates at this level often struggle to correctly answer questions on computer assisted audit techniques. The following question on this topic was included in Section A on this occasion:

Which of the following are examples of the way in which audit software may be used by an auditor?

- i. To perform calculations and comparisons in analytical procedures.
- ii. To test password controls built into computer programmes.
- iii. To test whether accounting records are updated, in accordance with authorised policies and procedures.

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

Candidates were expected to know that audit software is particularly useful in carrying out substantive procedures, and that the tests at (ii) and (iii) above are tests of control, with the test at A being a substantive test. A is therefore the correct answer.

Another topic that candidates often appear to have problems with at this level is that of the auditor's opinion – expressed on a set of financial statements. Question 6 in Section A required candidates to confirm as to whether the following statement is true or false.

'Auditors should express a qualified opinion when they have been unable to obtain sufficient appropriate evidence, on a matter which is material and pervasive to the financial statements'

The statement is false, as in such circumstances auditors should issue a disclaimer of opinion. Candidates who answered this question incorrectly were obviously confused as to the differing types of opinion and the circumstances in which each is appropriate. This topic is likely to feature regularly in future exams at this level, so candidates should ensure that they are familiar with it.

As previously indicated candidates should not 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. 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 very 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 part of a question focusing on inherent risk in the financial statements of a motor car manufacturer, candidates were required to “state three reasons, other than the risk of unidentified losses as a consequence of theft, misuse and deterioration, as to why inventory would be an area of high inherent risk in the financial statements “

Most candidates managed to provide three reasons, however many obtained only a fraction of the marks available because the reasons they stated were often associated with the possibility of theft, misuse or deterioration of inventory. This simple failure, to answer in line with the requirement of the question, was particularly disappointing, especially given the manufacturing environment as described would allow for a variety of inherent risk factors pertaining to the quantification and valuation of inventories - comprising large quantities of goods classified as raw materials, work-in-progress and finished goods.

Key to any audit engagement is that the auditor should obtain an understanding of the entity as per ISA 315 *‘Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment’*. A very straightforward question on this topic was answered to a poor standard by many candidates. The content of many answers to the question which required identification of three matters that an audit team should consider to obtain an understanding of a company and its environment, indicated both a lack of appreciation of the matters that auditors need to consider at the beginning of an audit, in order to assess inherent and control risk. There was generally also a lack of understanding of the work involved in the various stages of an audit engagement. Of particular concern was that a significant number of candidates appeared to confuse matters that an auditor should consider when determining whether to accept an audit engagement, with matters to be considered at the planning stage in order to obtain an understanding of the audit client company and its environment. Audit engagement acceptance issues are not within the FAU syllabus and therefore are not examinable in this paper - as such candidates’ answers should not make reference to them.

Candidates should expect this exam paper to include questions on both tests of control and substantive tests. From one exam to another, the style, nature and marks devoted to these key areas of the syllabus will vary - but of vital importance is that candidates have a full appreciation of them both in terms of what they are and how and when they are employed during an audit engagement. One of the questions on this paper offered 6 marks, for describing TWO tests of control which an auditor may perform when auditing a sales and trade receivables system with well –designed controls. Generally the question was answered to a very poor standard with many answers displaying a complete lack of understanding of the purpose and nature of tests of control. Only a small minority of candidates correctly described two tests of control, and many others struggled to provide just one. A significant

number merely described one or two control objectives of a sales and trade receivables system, for which no marks were available, and a substantial number described substantive procedures instead of tests of control. Candidates are again reminded that they must understand the purpose and application of tests of control and of tests of detail and be able to differentiate between them.

Conclusion

This paper examined a broad range of topics from across the syllabus, and there was a reasonable number of well – prepared candidates who scored a very good mark. Unfortunately it is apparent that a significant number who sat the exam were inadequately prepared.

In order 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. Future candidates should take heed of these points and ensure they have cogent understanding of the core areas, in order to maximise the chances of success,. Candidates who only have surface levels of knowledge are unlikely to achieve success, because by its very nature the subject of auditing requires detailed knowledge of a series of linked processes, and even at foundation level a reasonably in - depth knowledge of these are required.

When preparing for this exam candidates should ensure that they adopt a structured approach to learning, and leave sufficient time for revision and question practice immediately prior to sitting. Last minute learning and cramming should be avoided, as the exam demands detailed learning and appreciation of the various technical procedures carried out during the course of an audit engagement. Again, while it was very pleasing to note the significant number of candidates who displayed good knowledge levels - mirrored by their achievement of high marks at this session , the number of candidates who achieved a mark significantly lower than that of ‘pass’ standard was disappointing. Candidates need to improve their engagement with the study and learning process, as indicated above, in order to ensure future success.