

Examiner's report

FAU Foundations in Audit

June 2016

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 overall. 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.

All questions were answered by the overwhelming majority of candidates, and time pressure did not appear to be an issue generally. While it was encouraging to note the number of candidates who scored well on most of the questions - with some submissions achieving excellent marks throughout; 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:

- Failing to exercise sufficient care when reading question requirements, resulting in the provision of irrelevant answer points.
- An attempt to write generally and vaguely around a specific topic, rather than in line with the specific requirements of a question.
- Provision of extremely brief, uninformed, answers, often limited to only one or several words.
- Inability to provide pertinent 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.

Specific Comments

Section A

Almost without exception, candidates attempted all questions with many candidates scoring well in this section.

Given the breadth of the syllabus for this paper, the Multiple Choice Questions (MCQs) always cover a broad range of issues, so it is imperative that candidates' exam preparation time includes practising numerous MCQs across the syllabus. 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, selected from this section, was answered incorrectly by the majority of candidates.

Example Question

Auditors must comply with the requirements of the International Standards on Auditing (ISAs) at all times during the conduct of an audit. They must not depart from these requirements in any circumstances.

Is this statement true or false?

The majority of candidates answered 'true', but the statement is 'false'.

As stated in ISA 200 *Overall Objectives of the Independent Auditor*, an auditor can depart from the requirements of the ISAs if it is necessary to satisfy their overall objective. However, if auditors do not comply, they must justify their actions in such instances.

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. Only a small proportion of candidates answered each question in Section B to a very good standard and there were some particularly outstanding performances.

Having provided an example of a client specific matter that the auditor should consider when establishing an audit strategy, one of the questions required candidates to 'state three other matters' relevant to the audit strategy. It was apparent that while many knew that the audit strategy sets the scope, timing and direction of the audit, relatively few candidates were able to apply this knowledge and set out three specific matters - for example preliminary risk assessment issues, audit resource requirements (including staffing requirements) and the need for experts.

A question testing knowledge of analytical procedures was problematic for a significant number of candidates. The requirement to explain the term 'analytical procedures' proved to be challenging for many, with a majority of candidates submitting answers that were not tailored to the requirement. In response to a further requirement, to list two operational issues which could explain a reduction in the reported gross margin of a large supermarket chain, many candidates listed points uniquely relevant to a company with manufacturing operations or that had no relevance to gross margin. Candidates are reminded to read the question requirement carefully and consider whether they are tailoring their knowledge to answer the question set.

In the main, most parts of an internal control question were well answered. However, one requirement which focused on testing knowledge of specific controls to be exercised over a payroll standing data file was answered to a comparatively poor standard. Rather than placing focus on segregation of duties, authorising and physical control activities as means of maintaining control over the file, many candidates suggested erroneous procedures and made reference to irrelevant application controls in this regard.

Finally, it was disappointing to note that a significant number of candidates were unable to correctly explain the nature and purpose of 'a walk – through test' and 'block sampling'. In response to a question on these topics, a disconcerting number mistook the former as an alternative name for a test of control, and proceeded to explain the nature and purpose of such a test. Similarly, when explaining the nature and purpose of block sampling, many candidates were unable to provide an accurate description or examples.

Conclusion

A reasonably high proportion of well – prepared candidates achieved a good or very good mark in this exam. However, a disappointingly high number who sat the exam were inadequately

prepared, resulting in their inability to reach pass standard. It was apparent that many candidates had attained only surface levels of knowledge and because of its very nature the subject of 'auditing' requires detailed knowledge of a series of linked processes, and even at foundation level in - depth knowledge of these is required. 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.

The exam will continue to examine a broad range of topics from across the syllabus, and to increase the likelihood of success, future candidates should adopt a structured approach to learning, and leave sufficient time for revision and question practice in the weeks leading up to the exam.