

Examiner's report

FAU Foundations in Audit

June 2017

General Comments

Section A of the Paper, worth 20 marks overall, contained ten objective test questions. Section B contained nine questions for a total 80 marks overall. These were allocated in the usual manner 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.

The overwhelming majority of candidates, answered every question and in all but a very few instances time-pressure did not appear to be an issue. It was apparent that a relatively high number of candidates performed to a very good standard - however, this contrasted sharply with a significant number of candidates who did not perform at all well. Whilst it was encouraging to note that well above half of the candidates answered Section A to a pass standard, a disappointing number achieved a very low mark in Section B, and a concerning tranche of apparently very poorly prepared candidates scored very few marks in both Sections. Questions on this [paper] are set to test candidates' knowledge and application of audit processes and techniques at a basic level - with heavy weighting toward the former, and it is for each individual candidate who did not achieve a pass grade for this exam to evaluate the reason(s) for this, objectively. However, whilst it was clear that a significant number of candidates displayed poor exam technique, it was apparent that the overriding reason for the vast majority of candidates who did not achieve a pass grade was simply that they possessed sparse knowledge and a confused understanding of the core topics examined. Poor performance by candidates in Section B reflected:

- A failure to answer in line with question requirements, leading to wasted effort and irrelevant and unfocused answer points.
- Overly brief answers, often limited to only a single or several words, which in the context of the requirement were often meaningless.
- An apparent lack of ability to provide cogent definitions and explanations of relatively straightforward audit procedures and relevant examples of specific objectives and tests - as required.
- Relatively unfocused answers containing a range of vague definitions, explanations and representations aimed at the topic covered in the question, but not in keeping with question requirements.
- Weak layout and structure of answers.
- Difficult to read or illegible hand writing.

Section A

In the main, general performance in this Section was encouragingly good – with several questions being answered correctly by a very high proportion of candidates. However, some other questions - in particular those testing knowledge of auditing in a computer-based accounting environment, and the use of computer-assisted audit techniques (CAATs) - were answered to a relatively poor standard. This is of particular concern given the preponderant and pervasive nature of information and communications technology in today's business world, and the consequent ever increasing use of CAATs by auditors. Candidates for this examination should have been thoroughly prepared for the testing of their knowledge of the syllabus applying to the audit of computer-based accounting systems, and future candidates need to be similarly prepared for the likelihood of regular testing.

The question below was answered incorrectly by a majority of candidates.

The auditors of a company with a computer- based accounting system should NOT use audit software to perform which of the following tasks?

- A Carrying out substantive analytical procedures, for example analysing monthly sales trends.
- B Prepare specified audit documents, for example trade receivables circularisation letters.
- C Test processing controls in a functional area, for example in the processing of wages data.
- D Extract data for audit testing, for example a sample of trade payables balances.

The key to answering this question correctly was, in the first instance knowing the difference between audit software and test data. The former (used during substantive procedures) being computer audit programmes used to independently analyse, interrogate and extract data held on audit clients' computer files; and the latter (used for tests of controls) being auditor generated data processed through clients' systems to enable the auditor to test the integrity of programmed controls to prevent or detect and correct errors.

Applying this knowledge to the question, there was a straight forward requirement to identify the task for which audit software would not be used – in other words to identify the task which involved the testing of controls rather than tasks carried out during the substantive testing stage of an audit . Using this rationale, the procedures identified at A, B and D are all related to substantive testing, whilst the task at C is the only one used to test application controls, including processing controls. Test data should be used for these purposes. Option **C** is therefore the correct answer.

To improve prospects of overall success in the exam, it is almost imperative that candidates obtain a good mark in this Section. To achieve this, a broad knowledge of the core topics in the syllabus is required. Future candidates are reminded that to facilitate the achievement of a good mark in this Section, they should practice numerous multi – choice questions under time pressure, time and time again, until correct knowledge is embedded and they are able to progress through a set of questions on an array of topics in good time.

Section B

The performance of many candidates who performed poorly in Section A was mirrored with poor performance in this Section. However a significant number of candidates achieving a pass standard for the objective test questions, progressed to score low or very low marks for the rest of the paper. Whilst poor exam technique was a contributing factor in this respect, with regular incidences of very poor - sometimes illegible hand writing and overly brief and poorly structured answers - it was apparent that the overriding reason for poor performance was a display of very sparse knowledge of key topics in core areas of the syllabus. Rather than focus on the specific requirements of questions, in contrast to an encouraging number of strong performers who did, a significant minority of candidates appeared to adopt a strategy of writing extensively on topical areas without specifically addressing pertinent issues in any meaningful way. This strategy was not successful and candidates are reminded to read the question scenarios and requirements studiously, and to plan the structuring of answers carefully in order to maximise the potential to obtain marks .

Candidates should be aware that unless they have very sound knowledge of Internal Control and its significance to the risk - based audit approach, then they are unlikely to achieve a pass grade in the exam. Along with pertinent questions on the topic in Section A, there is always going to be good coverage of it in Section B. In this paper, six marks were devoted to testing knowledge of the Risk Assessment and Information Processing components of a company's internal control system, and it was apparent that many

candidates had only very superficial knowledge of these. Similarly, the same question offered a relatively straight forward six marks for detailing control activities that should exist over the organisation, counting and recording aspects of a year - end inventory count. A disappointing number of candidates struggled with this requirement - some because they appeared to have very sparse knowledge of inventory count issues generally, but others struggled simply because they did not understand the meaning of the term 'control activities'. That candidates were unable to display a pass standard of knowledge on such fundamental areas of the syllabus is of obvious concern. A six mark question requiring candidates to state two audit tests to obtain audit assurance about reported prepayments, was not answered at all well by the majority. One rather surprising reason for this was that a significant number appeared to be unaware as to the nature of prepayment transactions, but the main reason was that most appeared to be unaware of the objectives of the needed substantive procedures and the nature and direction of the tests to be carried out. Although this exam paper is weighted towards testing knowledge rather than application of audit methodologies, every paper is likely to include relatively straight forward questions on tests of control and substantive procedures across the range of financial statement areas.

Given the importance of planning on every audit engagement, questions about audit planning are bound to feature at every session of this exam. On this occasion, the relevant question focused on matters relevant to planning the audit of the financial statements of a manufacturing company. Amongst other matters, candidates were expected to pick up on the high risk areas applying - in particular those of inventory, non-current assets and factory wages. Relatively few picked up on all three, and whilst this itself was not an issue for the marking team, of concern was the number of answers in which client engagement issues, obtaining an understanding of the company and risk assessment were put forward as discrete planning matters. Clearly they are not, and candidates sitting in future should ensure they are wholly familiar with the various aspects of audit planning so to avoid future confusion.

Conclusion

The syllabus for this exam is broad, reflecting the range of examinable knowledge and applications based material at this level. The paper is challenging but manageable, especially given the core areas of the syllabus that are examined at every session. The inherent and inter-related complexities of the audit process mean that a structured learning and revision programme over a reasonably long period is required, to absorb the learning material, and to practice exam technique with past exemplar questions and answers. The high number of candidates that performed strongly in this exam is indicative that with better preparation more could have been successful. It is for candidates who did not succeed at this sitting, to reflect on their own performance and perhaps resolve to modify their future preparation.