



Examiner’s approach

Paper F8

The aim of Paper F8, *Audit and Assurance* is to develop knowledge and understanding of the process of carrying out the assurance engagement and its application in the context of the professional regulatory framework. The paper is therefore designed to be practical in application, and given it is the only compulsory auditing paper in the syllabus, it also aims to ensure that candidates who pass this paper understand the basics of an audit.

The exam will be as practical in application as possible, given the constraints of a three-hour exam and candidates’ limited experience of taking this paper. I recognise that many candidates may never have experienced a ‘real’ audit, but nonetheless, the principles of an audit must be understood.

Going into this paper, it will be assumed that candidates have knowledge of Paper F3, *Financial Accounting* and Paper F4, *Corporate and Business Law*. The accounting standards examined in Paper F3 could form the basis of questions on how to apply auditing procedures in respect of those standards. Going forward, candidates will take knowledge of Paper F8 into Paper P1, *Professional Accountant*, and Paper P7, *Advanced Audit and Assurance*. It will be assumed that candidates understand why an audit is required (for Paper P1), and already know the basics of audit procedures (for Paper P7).

Explanation of capabilities

Paper F8 focuses on seven capabilities. **Table 1** shows how I expect each of these capabilities to be examined, and details comments on the type of questions that could be asked.

Format of the exam

In some respects, the format of this paper is easy – all questions have to be answered. While this places some additional pressure on candidates, compared to the requirements of the Paper 2.6 exam, the structure of the paper has been changed to try and assist candidates, as explained below.

All questions will require some form of written response. However, a few questions will also require the calculation and interpretation of some basic ratios in the context of audit planning or review. The *Pilot Paper* shows the expected format, as well as indicating the type and subject area of questions that will be asked. In summary:

Question	Format/indicative subject area	Marks available
1	This will always be a question on audit procedures, and the application of these procedures to a specific scenario	30
2	Short factual questions based on International Standards on Auditing (ISAs) and other key areas of the <i>Study Guide</i>	10
3	Risk and audit approach	20
4	More specialised audit areas	20
5	Collection of audit evidence, closedown, reporting	20

I have attempted to be helpful both in format as well as indicating the general areas which questions will cover. Therefore, on going in to the exam, candidates will have a good idea of the question types and the general areas that the exam questions will relate to. This hopefully compensates for the lack of choice within the exam.

Additional comment on Pilot Paper questions

Question 1

This question will always be based on a scenario, and will be broken down into a series of sub-questions, which will examine a range of audit procedures. Candidates will need to analyse the scenario to identify the appropriate

points to make in their answers. Candidates are encouraged to make good use of the reading time allowed in this exam.

The use of computers is deliberate in this question. Most companies use computer-based systems, and it is likely that many questions on this area will be based on computerised systems in some shape or form. However, detailed knowledge of how to use computer-assisted audit techniques (CAATs) will not be expected. In the future, questions will focus on specific income statement and balance sheet entries. Possible questions will cover audit procedures (as in the *Pilot Paper*), identification of system weaknesses, writing of management letters, and whether systems meet their objectives (internal audit focus). This list is obviously not exhaustive.

Question 2

The use of shorter factual questions allows for greater syllabus coverage in one exam paper, while also allowing candidates to demonstrate their basic knowledge of auditing. Questions will normally be based on ISAs.

However, answers will obtain credit if valid points are made. I am not expecting rote learning of ISAs, but rather an understanding of the key principles underlying auditing. Note the distinction between questions where the requirement is to 'list', and those where the requirement is to 'list and briefly explain'. The latter will require some explanation of the items included in the answer.

General comments on Questions 1 and 2

The inclusion of a 30-mark scenario question followed by a 10-mark theory question is intended to assist candidates by splitting knowledge and application questions. Note that the format of many questions in the Paper 2.6 exam is to have a five-mark introduction followed by a 15-mark application question. Providing one 30-mark application question (rather than two) will decrease reading time, assisting candidates in this exam.

Questions 3, 4 and 5

These questions will normally cover the audit areas noted in **Table 1**. The format will be similar to questions in the Paper 2.6 exam.

Conclusion

My aim is that Paper F8 can be passed by a candidate who understands the underlying theory of auditing and can apply that theory to relatively basic audit situations – knowledge itself is not sufficient to pass this exam. I would go as far to say that if a candidate did not mention one ISA by name, but showed an understanding of the principles of auditing based on ISAs, then a pass is achievable. My advice therefore is to study the basics of auditing, and then to practise applying that knowledge to scenarios, as this is – and will continue to be – the main focus of this exam.

Alan Lewin is examiner for Paper F8

TABLE 1

Capability

Explaining the nature, purpose, and scope of assurance engagements, including the role of the external audit and its regulatory and ethical auditing, or on the application of ethical framework.

Explaining the nature of internal audit. Describing its role as part of overall performance management, and its relationship with external audit.

Demonstrating how the auditor obtains an understanding of the entity and its environment, assesses the risk of material misstatement (whether arising from fraud or other irregularities), and plans an audit in establishing the audit of financial statements.

Describing and evaluating information systems and internal controls to identify and communicate control risks and their potential consequences, and making appropriate recommendations.

Identifying and describing the work and evidence required to meet the objectives of audit engagements and the application of ISAs.

Evaluating findings and modifying the audit plan as necessary.

Explaining how conclusions from audit work are reflected in different types of audit report, explaining the elements of each type of report.

Comment

Questions may focus either on the factual areas of the legal aspects of standards in scenario-based questions.

The work of internal audit could feature in any question in the exam. However, there may not always be an internal audit/review question. If internal audit is mentioned, it is most likely to appear in Question 1, as part of a question on audit procedures, or in Question 4 as part of a question on more specialised audit areas.

Questions in this area will relate to the planning of the audit. They will normally feature aspects of engagement risk, or the work of the auditor plan.

This capability, and the next, will relate to the testing of controls, and the collection of audit evidence using compliance and substantive testing as appropriate. ISAs now make a clear distinction between compliance and substantive procedures, and this split will be followed in exam questions. Reporting of recommendations regarding weaknesses in internal controls, or other issues found in an audit, will continue to be examined in terms of production of management letters.

Questions for this capability are likely to focus on the application of substantive procedures to either income statement or balance sheet areas (refer to the *Study Guide*). It is quite likely that both income and balance sheet statements will feature in Question 1 with, for example, sales and receivables/debtors testing procedures being included in the same question.

This is potentially the most difficult area of the *Study Guide*. As many candidates will not have been involved in audits, they will therefore probably be unclear on how to deal with findings or errors which have an impact on the audit plan. The overall approach to questions in this area will therefore be similar to the post-balance sheet event question in the December 2005 Paper 2.6 exam – explaining the additional testing required as a result of errors being found during the application of audit procedures.

The emphasis of questions in this area will be on explaining reports rather than having to draft them, as in the *Study Guide*. Extracts will normally relate either to an explanation of how a standard report can be modified, or (in a limited number of cases) supplying appropriate wording for the modification only. To be clear, candidates will not be expected to provide the wording for an entire audit report (as per ISAs). Knowledge of the content of ISAs in the 700 series will be expected (where relevant to this paper). Questions will potentially provide extracts of audit reports, and require candidates to identify where ISA guidance has not been followed.