

# READY TO SIT PAPER F8?

## TOP 10 MOST COMMON MISTAKES IN AUDIT EXAM ANSWERS RELEVANT TO ACCA QUALIFICATION PAPER F8

This article identifies and explains some of the more common errors found in Paper F8, *Audit and Assurance* exam scripts. Attempt the 10 questions in this article – they vary from easy to relatively hard – and list your answers on a separate sheet of paper and then compare and contrast your answers with the suggested solutions provided in the second half of this article.

As you work through the 10 questions in this article, you will note that some questions, for example Question 1, provide two options. You must identify the correct option. Other questions require a more detailed response, as explained in the question itself. There are 14 marks available in total, and the pass standard is seven marks (50%). By the end of this exercise, you should have learnt why many relatively easy marks are not always obtained by candidates sitting the Paper F8 exam.

### QUESTION 1

Which option is the correct response to the following statement? 'Explain the purpose of a management representation letter.'

#### Option A

A management representation letter is addressed to the auditors of a company, and is written by the directors of that company at a time towards the end of an audit. The letter contains information from management concerning matters that the auditor may not have been able to obtain sufficient evidence on from other sources, such as estimates for provisions, as well as confirming management's responsibilities for the financial statements.

#### Option B

A management representation letter is addressed to the directors of a company, and is written by the auditors of that company at a time towards the end of the audit. The letter contains information on weaknesses in the company's control systems, identified by the auditor, examples of errors that could occur because of each weakness, and recommendations on how to mitigate those weaknesses.

### QUESTION 2

Which of the following audit procedures will help to confirm the going concern status of an entity?

#### Option A

Obtain, cast, and review cash flow forecasts prepared by management to ensure that the company has sufficient cash to continue trading.

#### Option B

Perform cut-off testing on sales and purchases to ensure sales and purchases have been correctly recorded in the correct accounting period.

### QUESTION 3

State whether the following are tests of control or substantive procedures in a wages system:

- Obtain a sample of clock cards and ensure they are signed by the shift foreman.
- Obtain sample of clock cards and agree hours worked to hours shown on the wages calculation sheets in the accounts office. (2 marks)

### QUESTION 4

Which of the following audit procedures can be performed using test data on a wages system?

#### Option A

For a fictitious employee, enter details of hours worked and rate of pay to confirm that gross wages are correctly calculated.

#### Option B

Extract the data on gross wages from the client computer; perform a month-by-month analysis on the auditor's computer to identify any unusual trends.

### QUESTION 5

Audit work on inventory has been completed. The directors refuse to make an adequate provision for obsolete stock. Which of the following is a suitable action for the auditor to take?

#### Option A

Obtain additional audit evidence from purchase invoices on the net realisable value of the disputed stock.

#### Option B

Obtain a management representation point confirming management's decision on the provision.

### QUESTION 6

State which of the following assertions is not relevant to account balances at the period end:

- valuation and allocation
- measurement
- completeness.

### QUESTION 7

A scenario states that an engagement partner holds some shares in an audit client, with the question requirement asking you to identify and explain the ethical issues and provide a resolution to each issue. Identify the weaknesses in the following answer extract: 'The audit partner must transfer the shares to his son (who is 15-years-old).' There are three weaknesses to identify.

### QUESTION 8

State the weaknesses in the following audit procedure in a sales system: 'Check the invoice agrees to the ledger.' There are two marks available.

### QUESTION 9

'Independence' is a fundamental ethical principle of ACCA. True or false?

### QUESTION 10

Which option provides a suitable response to the requirement: 'List the contents of an engagement letter'?

#### Option A

An explanation of how the audit fee is determined.

#### Option B

The letter explains how the fee for the audit is calculated. This is included to show the client that fees reflect the experience of the audit staff assigned to the audit, as well as the time taken on the audit by each grade of staff.

**QUESTION 5: OPTION B**

**Common error: Repeating audit procedures when a clear decision at the end of the audit is required.**

One problem in many auditing answers is that candidates are unwilling to make a final decision on an audit issue. Option A is incorrect because it involves carrying out further audit work when the question clearly stated audit work was complete. Option B is therefore the correct answer as it provides the auditor with appropriate evidence on the decision made by management.

This error is avoided by checking the context of the scenario or question. Where the examiner places the question context at the end of the audit, or states that audit work is complete, then obtaining management representations or proceeding to issue a modified audit report are likely to be the most appropriate ways forward.

**QUESTION 6: OPTION B**

**Common error: Use of old auditing terminology**

Selecting the correct answer here is relatively simple as the assertion 'measurement' was made redundant in the last revision of ISA 500. While detailed knowledge of ISAs is not a pre-condition for passing the Paper F8 exam, answers are expected to be technically correct. There is a need to ensure comments made do reflect current audit terminology, especially on key issues such as assertions.

**QUESTION 7**

**Common error: Not explaining comments made in answers in sufficient detail.**

The three points to be made, for the three marks available, are:

- The answer extract does not actually state the ethical issue – that is, that the shares are owned by the engagement partner.
- There is no explanation of why this is an ethical issue. Comment should be made that the engagement partner's independence is impaired; any action by the partner to decrease the share price (eg qualification of the financial statements) may not be taken because the partner would lose money.
- The resolution to the conflict is inappropriate – any shareholdings by minors are still deemed to be connected to the parent (the partner).

Candidates must read the question requirement carefully and ensure that answers provide the necessary (and accurate) detail. To avoid an unclear answer, think 'what is the issue?', 'why is this an issue?', and 'how can this issue be overcome?'.  
**QUESTION 8**

**Common error: Not stating audit procedures clearly.**

First, it is unclear which 'invoice' or 'ledger' the answer refers to. Stating sales invoice and debtors ledger would at least show which transaction cycle was being tested.

Optim B is an example of the use of audit software – obtaining data from the client's computer systems for further analysis on the auditor's own computer systems. This error is best avoided by remembering that audit software is used to analyse client data, and that test data is used on a client's computer system.

**QUESTION 9**

**Common error: Lack of understanding of the going concern concept.**

A going concern review relates to the future of the company – ensuring it will remain in existence for the foreseeable future. Option A is therefore correct, as these audit procedures relate to the future.

Option B's procedures relate to the past or to standard audit work on the financial statements. The error is avoided by remembering that the term 'going concern' relates to the future, even if it appears to refer to the past.

**QUESTION 10: OPTION A**

**Common error: Confusion regarding fundamental ethical principles.**

This statement is false. An auditor's independence can be affected by many things, but it is not fundamental principle of ACCA. A significant minority of answers still refer to this 'principle', proceeding to issue a modified audit report are likely to be the most appropriate ways forward.

**QUESTION 11**

Good work – you are starting to think like an auditing exam candidate.

**7 or less**

Beware, you may want to increase your knowledge and question answering skills before you attempt the Paper F8 exam.

Hopefully, you have now identified some of the common errors in Paper F8 exam scripts and can avoid these in the exam itself. ■

**Alan Lewin is examiner for Paper F8**

**CONCLUSION**



The result is some wasted time in the exam because only half a mark is available for the answer to a 'list' requirement verb, even for the 'list and explain' style answer given as Option B.

**QUESTION 10: OPTION A**

**Common error: Lack of understanding of the requirement verb 'list'.**

When the requirement verb 'list' is used in an exam question (as is often the case in Paper F8 Question 2, for example), it simply means provide a list of points, each worth half a mark. Option B shows an answer to the requirement 'list and explain', where some justification for each point is expected. Many candidates appear to feel 'safer' providing an explanation, even when the requirement verb is 'list'.

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**QUESTION 4: OPTION A**

**Common error: Confusion between test data and audit software.**

Optim A shows the use of test data – in this case, dummy data is entered into the computer system to check the accuracy of the programmes being used to calculate gross wages.

Optim B is an example of the use of audit software – obtaining data from the client's computer systems for further analysis on the auditor's own computer systems. This error is best avoided by remembering that audit software is used to analyse client data, and that test data is used on a client's computer system.

**QUESTION 3**

**Common error: Confusion between tests of control and substantive procedures.**

The first statement is a test of control, because the auditor is checking that the foreman has signed the clock card, presumably to confirm that the hours worked are correctly recorded on the card.

The second statement is a substantive procedure, because the auditor is comparing details between two separate documents – effectively reperforming the actions of client staff. Avoid this error by checking the wording of the question requirement carefully. If the examiner asks for a 'test of control' then a test of control is required – a substantive procedure will not obtain any marks.

**QUESTION 2: OPTION A**

**Common error: Lack of understanding of the going concern concept.**

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**QUESTION 1: OPTION A**

**Common error: Confusion between representation letters and management representation letters.**

Optim B is actually a letter of weakness, which the auditor would use to explain weaknesses in a control system. A related error is defining the contents of a management letter as a letter of weakness (as in Question 2 Part (a) of the June 2008 Paper F8 exam).

Avoiding this error is relatively easy. Just look for the term 'representation' in the name of the letter as this identifies the fact that it is a letter from management to the auditors.