This article explores some important exam technique points that are relevant to Paper P7, Advanced Audit and Assurance. It is unfortunate that many candidates fail to use appropriate exam technique when attempting this challenging exam. Indeed, many candidates fail to secure a pass mark simply due to using a careless approach when tackling questions. It focuses on questions dealing with audit evidence, as it is these questions that tend to be tackled particularly inadequately by candidates.

Why is exam technique important? This may seem like an obvious question, but it is worth considering, as many candidates seem to think that exam technique is irrelevant, and that technical knowledge alone is all they need to do well in Paper P7. However, while a sound technical knowledge is important, this paper is largely about application of knowledge, and it is very difficult to gain application marks without a good question technique. You will be unable to secure a pass mark for a question requirement where application is required without tailoring your answer to the specific question scenario.

Technique can mean a wide variety of skills, including:

- Allocating sufficient time to the question requirement
- Answering the exact requirement that has been set
- Writing enough different points
- Writing points that are relevant to the question scenario.

There are two types of requirement dealing with evidence that regularly appear in Paper P7. We will look at each of them in turn, to consider the technique that should be adopted for each.

Requirement type 1: Principal audit procedures

These requirements typically form part of questions set in the context of the planning of an engagement. Table 1 opposite shows some examples from past papers.

You are advised to refer to the actual question scenarios and requirements to gain the most benefit from the discussion below.

What are ‘principal audit procedures’?

Each of the requirements asks for principal audit procedures in respect of a specific amount or transaction. The first step is to appreciate what is, and what is not, a principal audit procedure.

ISA 500, Audit Evidence states that audit procedures to obtain evidence can include inspection, observation, confirmation, recalculation, reperformance, analytical procedures and inquiry. Therefore, the question requirement is asking for examples of the types of procedure that would provide evidence in respect of the specified amount, transaction or document.

This may seem obvious. But candidates often include points in their answers that are not principal audit procedures. For example, simply stating that there is a relevant financial reporting standard is not a principal audit procedure. Equally, the calculation of materiality is not a principal audit procedure.

Candidates often try to generate audit procedure points using the mnemonic ‘AEIOU’ (Analytical Procedures, Enquiry, Inspection, Observation, and recompUtation), which will not always provide a good answer. Auditors need to focus their procedures on the method(s) most relevant to the amount or transaction in question, and should not try to ‘force’ an audit procedure into a category that is not relevant to the item for which evidence is being sought. For example, looking at the third requirement illustrated above, in respect of the recoverability of a deferred tax balance, many candidates suggested they should ‘observe the tax asset’, which is clearly meaningless, and detracts from the quality of the answer.
TECHNIQUE

TABLE 1: REQUIREMENT TYPE 1 – PRINCIPAL AUDIT PROCEDURES (EXAMPLES FROM PAST PAPERS)

<table>
<thead>
<tr>
<th>Date</th>
<th>Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 2007, Question 1(b)</td>
<td>Explain the principal audit procedures to be performed during the final audit in respect of the estimated warranty provision...</td>
</tr>
<tr>
<td>June 2008, Question 2(b) (ii)</td>
<td>State the principal audit procedures to be performed on the consolidation schedule...</td>
</tr>
<tr>
<td>December 2008, Question 1(b) (ii)</td>
<td>Describe the principal audit procedures to be carried out in respect of...the recoverability of the deferred tax asset.</td>
</tr>
<tr>
<td>June 2009, Question 1(c) (ii)</td>
<td>Describe the principal audit procedures to be performed in respect of...the amount recognised as an expense for the advertising of the brand.</td>
</tr>
</tbody>
</table>

For deferred tax, the most relevant type of procedures would be inspections (of profit forecasts and tax computations and correspondence with tax authorities).

The second reason why it is recommended that candidates do not use the ‘AEIOU’ mnemonic is because it is out of date. ISA 500 states that there are seven types of audit procedure (inspection, observation, external confirmation, recalculation, reperformance, analytical procedures and inquiry). Candidates should obviously be learning the content of current ISA requirements, and are limiting their ability to generate ideas by using the old memory aid of ‘AEIOU’.

Vague answers
Answers to requirements on audit procedures are often too vague. Typical points made on candidates’ scripts in respect of the first example above, procedures in respect of a warranty provision included:
- discuss with management
- get a representation
- check if the accounting treatment is correct
- compare to last year’s figure
- see if disclosure has been made.

These points are too vague to be awarded credit. These are not specific to the question scenario or the requirement and display no application skill. They could be about any balance or amount in the financial statements.

Good exam technique for this type of requirement should include thinking about the nature of amount or balance as specified in the question, and also considering the question scenario itself. Let’s reconsider the requirement about a warranty provision and compare the points made above to good, specific answers (Table 2, overleaf).
You can see that the procedures on the right-hand column of Table 2 are much more specific and detailed, and are specifically relevant to a warranty provision. A good way to check if your answer is specific and detailed enough is to ask yourself if you were given the audit programme and asked to carry out the testing, would you know exactly what to do? If the programme simply said ‘discuss with management’, you would be thinking ‘discuss what, and with whom?’, indicating that the procedure has not been described in enough detail.

<table>
<thead>
<tr>
<th>Too vague</th>
<th>Specific</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discuss with management</td>
<td>Compare the current year provision with prior year and discuss any fluctuation with the person responsible for preparing the estimated provision.</td>
</tr>
<tr>
<td>Get a representation</td>
<td>Review board minutes for management’s discussion of ongoing warranty claims, and for approval of the amount provided.</td>
</tr>
<tr>
<td>Check if the accounting treatment is correct</td>
<td>Review contracts or orders for the terms of the warranty to gain an understanding of the obligation of the company.</td>
</tr>
<tr>
<td>Compare to last year’s figure</td>
<td>Compare prior year provision with actual expenditure on warranty claims in the accounting accounting period.</td>
</tr>
</tbody>
</table>

Answers not relevant to the question scenario
It is important to remember that all requirements are set in the context of a question scenario, and Section A question scenarios can be detailed. Candidates seem to forget this, and provide answers that ignore, or even worse, contradict the facts of the scenario. Very few marks will be available for comments which are not based on application to the question scenario – certainly not enough to pass the question requirement.

Let’s look at the last requirement in Table 1, in respect of an advertising expense recognised relating to a brand name. The question scenario clearly states that ‘the statement of comprehensive income (profit and loss account)

includes an expense of $150m in relation to the advertising and marketing of this brand’. In addition, the requirement repeats that ‘the amount is recognised as an expense’. However, the vast majority of candidates ignored this in their answers, and provided an answer mainly devoted to discussing the inappropriateness of the company recognising the brand as an intangible asset. This is irrelevant on two counts. First, as discussed above, a discussion of the financial reporting rules is itself not an audit procedure. Second, the amount has not been recognised as an intangible asset, a fact that has been given twice in the question.
Candidates should be aware from the marking guide published for each exam session, that generally one mark is awarded for each specific audit procedure provided. (Though this is sometimes restricted to ½ mark for brief or simple procedures such as agreeing an amount to the general ledger, or recasting an amount.) This means that to gain maximum marks, the number of procedures provided must match the mark allocation for the question.

We will finish this section by taking a requirement from June 2009, Question 1, and comparing an answer that illustrates good exam technique, with one which does not (Table 4 overleaf).

Requirement:

c Describe the principal audit procedures to be performed in respect of:

i The amount capitalised in relation to the construction of the new Green George cafe.  

(5 marks)

A final point to bear in mind is that question requirements may ask for procedures relevant to a non-audit engagement. Similar principles should be applied in this case. The procedures provided in the answer should be specifically relevant to the scenario and requirement, should not be so vague as to be meaningless, and there should be enough points made to match the mark allocation.

### Table 3: Requirement Type 2 (Examples from Past Papers)

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Description</th>
</tr>
</thead>
</table>
| June 2008, Question 3(b) | In relation to the receivable (debtor) recognised on the statement of financial position (balance sheet)...
Comment on the matters you should consider; and recommend further audit procedures that should be carried out. |
| June 2009, Question 3(a) | In your review of the audit working papers, comment on the matters you should consider, and state the audit evidence you should expect to find in respect of:
(i) leases
(ii) financial assets. |

Requirement type 2: Matters to be considered and relevant procedures or evidence

This type of requirement is typically used in a question set at the stage of the audit when evidence is being evaluated. Table 3 above shows some examples from past papers.

The first thing to note is that the requirement is made up of two parts: the first part asks for ‘matters to be considered’, the second part relates to audit procedures/audit evidence. As we have already considered audit procedures in the first part of the article, here we will focus on ‘matters to be considered’.

The matters to be considered will depend on the scenario provided, so candidates must not treat the discussion that follows as a list of matters that will be relevant to all requirements. However, there are a number of matters that it will often be appropriate to consider.

**Materiality**

Scenarios will often provide figures that can be used to demonstrate if a matter is material. Candidates should always determine if a matter is material and state their conclusion in their answer. It is important to show your working clearly, and to use the correct measure for materiality. For example, no marks would be given if materiality were calculated using the turnover figure for an item recognised on the statement of financial position (balance sheet).
# Technical

Candiates should also remember that materiality is not always considered solely on the basis of whether a figure crosses a numerical materiality threshold. Items can be material by their nature, such as related party transactions, or due to their potential impact on the financial statements.

## Table 4: June 2009, Question 1 Requirement – Good and Bad Answer Examples

<table>
<thead>
<tr>
<th>Weak answer</th>
<th>Why is this a weak answer</th>
<th>Good answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Check if IAS 23 (FRS 15) has been complied with</td>
<td>Too vague</td>
<td>Inspect the company’s accounting policy in respect of capitalised borrowing costs and agree consistently applied.</td>
</tr>
<tr>
<td>Agree amounts capitalised to supporting documentation</td>
<td>Too vague</td>
<td>Agree a sample of significant amounts capitalised to supporting documentation, eg agree capitalised labour costs to timesheets/payroll records.</td>
</tr>
<tr>
<td>Compare the amounts capitalised with brought down figures</td>
<td>Irrelevant as this is a new chain of restaurants so there would not be a prior period figure for comparison</td>
<td>Compare the amounts capitalised to an approved capital expenditure budget for the new chain of restaurants, and discuss significant variances with an appropriate employee, for example, the project manager.</td>
</tr>
<tr>
<td>Check if any amounts should not have been capitalised</td>
<td>Too vague – a couple of examples should be given</td>
<td>Review the list of amounts capitalised to ensure that revenue items have not been capitalised by mistake (eg staff training costs, consumable items such as cutlery and plates – these are revenue expenses which should not be capitalised).</td>
</tr>
<tr>
<td>Get a management representation that all buildings are complete</td>
<td>Irrelevant – evidence can be gained from a source other than management</td>
<td>For any sites still in construction at the year end, obtain a stage of completion certificate from the building contractor.</td>
</tr>
</tbody>
</table>
Equally, no marks would be awarded for just stating ‘the item is material’.

Candidates should also remember that materiality is not always considered solely on the basis of whether a figure crosses a numerical materiality threshold. Items can be material by their nature, such as related party transactions, or due to their potential impact on the financial statements, such as turning a profit into a loss for the year. Consideration of these matters may be relevant in some scenarios.

Financial reporting matters
This is the area where candidates tend to perform well as consideration of financial reporting matters is largely based on a demonstration of factual knowledge. The key point here is to keep comments short and to the point. It is apparent that candidates often spend too long on this part of their answer. The requirement is not asking you to explain a financial reporting standard, but to consider the impact for the auditor. It is fine to quote rules and principles from financial reporting standards, and this will generate a restricted number of marks, but try to consider whether the rule or principle poses an issue for the auditor. For example, one requirement of June 2009 Question 3(a), referred to above, related to a financial instrument. A few marks were available for commenting on the relevant rules, for example, the rules in relation to the classification of the financial instrument according to IAS 39 (FRS 26). However, few candidates developed the point further to consider problems for the auditor, for example, in terms of the management having possibly deliberately misclassified the asset in an attempt at creative accounting. At the very least, candidates should be able to identify if a financial reporting requirement is particularly complex, or involves significant judgments, both of which increase the inherent risk of material misstatement.

Also remember that disclosure requirements are an important feature of many financial reporting standards, so it will often be pertinent to consider whether the specific disclosure requirements have been complied with. This is especially the case for onerous disclosure requirements, such as those for pensions and financial instruments.

A final point on financial reporting – candidates should not approach questions of this type assuming that the accounting treatment is incorrect. In many scenarios there is nothing wrong with the accounting treatment, and no hint of a material misstatement. In this case, there is no need to consider the impact on the auditor’s opinion. If, however, the scenario indicates a material breach of financial reporting standards, then it is appropriate to consider the potential impact on the auditor’s opinion.

Sources and reliability of evidence
There are many instances where an issue is raised for the auditor in that there may be limited sources of evidence for an amount or transaction, or that there may be doubts over the reliability of sources of evidence. This is a point worth consideration, for example, if there is an indication that an estimate such as a provision may be subject to management bias and there are few sources of evidence to corroborate the figure determined by management.

A general comment on requirement type 2 questions
It is clear that many candidates spend far too long on the first part of the requirement (ie the matters to be considered), and write little or nothing in relation to the second part of the requirement (ie the relevant procedures or evidence). It is strongly recommended that candidates divide their time equally between the two parts of the question requirement. There is little point writing pages on the first part and nothing for the second. This severely detracts from the quality of the overall answer.

Conclusion
Candidates should attempt all of the past questions referred to in this article in order to develop a sound technique for questions relating to evidence, which feature regularly in Paper P7.

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