

# Examiner's report

## F8 Audit and Assurance

### December 2017

#### General comments

The F8 Audit and Assurance exam is offered in both computer-based (CBE) and paper formats. The structure is the same in both formats but our model of delivery for the CBE exam means that candidates do not always receive the same set of questions. In this report, the examining team share their observations from the marking process to highlight strengths and weaknesses in candidates' performance, and to offer constructive advice for future candidates.

- Section A objective test case questions – here we look at the key challenge areas for this section in the exam.
- Section B constructed response questions - here we provide commentary around some of the main themes that have affected candidates' performance in this section of the exam, identifying common knowledge gaps and offering guidance on where exam technique could be improved, including in the use of the CBE functionality in answering these questions.

There were two sections to the examination and all the questions were compulsory. Section A consisted of three OT cases each comprising five OT questions for a total of 30 marks, which covered a broad range of syllabus topics. In Section B candidates were presented with one constructive response question worth 30 marks and two constructive response questions worth 20 marks each; testing the candidates' understanding and application of audit and assurance in more depth.

In order to pass this examination, candidates should ensure they devote adequate time to obtain the required level of knowledge and application. Candidates who do not spend sufficient time practicing questions are unlikely to be successful as the written questions in particular aim to test candidate's application skills

#### **Section A**

It was very pleasing to see that once again almost all candidates attempted all 15 questions, across the three OT cases. Candidates preparing for future sessions are advised to work through the past exams which are available and to carefully review how each of the correct answers were derived. Section A questions aim to provide a broad coverage of the syllabus, and future candidates should aim to revise all areas of the F8 syllabus, rather than attempting to question spot. Section A in the December 2017 examination included, but was not limited to, questions on the following areas:

- Professional ethics and application of ACCA's Code of Ethics and Conduct
- Substantive testing including testing on wages and salaries, revenue and tangible assets.
- Subsequent events
- Audit finalisation and the final review; and
- Auditor's reports

## **Sample Questions for Discussion**

The following two questions are reviewed with the aim of giving future candidates an indication of the types of questions asked, guidance on dealing with exam questions and to provide a technical debrief on the topics covered by the specific questions selected. Candidates are reminded that there will be a mix of application and knowledge questions in Section A and it is imperative that they ensure their knowledge of the International Standards on Auditing (ISAs), and important areas of the syllabus such as audit procedures is at an appropriate level. The following questions have been selected to demonstrate the importance of these key areas.

### **Example 1**

**Which of the following procedures would NOT test for UNDERSTATEMENT of the wages accrual in Scarborough Co's Statement of Financial Position?**

- A** Agree the payment of the final week's wages from post year-end bank statements to the accrual listing
- B** Agree the final week's wage cost from the payroll listing to the accrual listing
- C** Compare the accrual in the financial statements to the prior year and investigate any significant differences
- D** Select a sample of employees from the final week's payroll listing and recalculate deductions

The correct answer is D.

Candidates are reminded that testing for understatement is about ascertaining whether the balance is COMPLETE at the year end. In this question candidates were asked to identify which of the procedures would NOT cover this objective. Therefore candidates were being asked to identify which of the tests is NOT a test for completeness. A good way to approach this style of question is to think about the objective of a test in relation to the identified assertion before assessing each of the procedures in turn.

Tests A, B and C would all test for understatement of the accrual through agreement to the subsequent payment, year-end client listing or prior year accrual.

Test D however would not test for understatement/completeness as the recalculation of deductions is a test for accuracy and will provide the auditor with no assurance that the correct amount has been accrued at the year end.

### **Example 2**

One objective of the final overall review is to ensure that the evidence gathered in the course of the audit supports the audit opinion.

**Which of the following questions, which are answered as part of the final review, support this objective?**

- (1) Was the audit plan suitably modified to allow for changing circumstances?
- (2) Has the audit firm's continued independence been considered?

- (3) Is other information published within the annual report consistent with the financial statements?  
(4) Has work been performed in accordance with relevant auditing, legal and professional standards?

- A** 1 and 4  
**B** 1 and 2  
**C** 2 and 3  
**D** 3 and 4

The correct answer is A.

While all of these questions will be considered in preparation for finalising the auditor's report only consideration of the suitability of the audit plan and whether the work has been performed in accordance with relevant standards will have an impact on the audit opinion.

### **Section B**

The constructed response questions in Section B tested candidates understanding of the audit and assurance syllabus:

- Audit framework and regulation
- Planning and risk assessment
- Internal control
- Audit evidence
- Review and reporting

### **Audit framework and regulation**

This area of the syllabus requires; an understanding of the functions of an audit, being able to distinguish between the scope of internal and external audit, and, an understanding of both corporate governance and professional ethics.

Questions in this area may present candidates with a scenario-based ethics or corporate governance question. Candidates are generally asked to identify and explain a set number of issues from a given scenario and give relevant recommendations to address the issues identified. 'Hurling Co' from the 'Sample March/June 2017 Questions' is a good scenario based question to practice the skill of explaining ethical issues and making relevant recommendations.

In addition questions in this area can be stand-alone knowledge based, such as internal audit or assurance, and do not need to be applied to the scenario provided in the question. In answering knowledge questions it is important to ensure that an adequate level of detail is provided, as often these questions are answered too briefly, almost in a note format. It is also important to identify the requirement verb, as 'describe' or 'state' require completely different levels of detail to be provided.

## Planning and risk assessment

This area of the syllabus requires an understanding of how the auditor obtains and accepts audit engagements, obtains an understanding of the entity and its environment, assesses the risk of material misstatement and plans an audit of the financial statements.

Questions on assessing audit risks tend to be scenario based; the candidates having to identify and explain the risks from a scenario and give an auditor's response to address the risks. Other questions in this area of the syllabus tend to be more factual knowledge based questions and hence depend on the ability of students to recall their knowledge in the exam.

Factual based questions may however still require candidates to also give examples relevant to the company in the scenario. In this session while it was pleasing candidates displayed their factual knowledge in this area of the syllabus, it was disappointing that a significant number of candidates did not give examples relevant to the scenario.

As noted in previous Examiner's Reports a fundamental factor in planning and assessing the risks of an audit of an entity is an assessment of audit risk, and this remains a highly examinable area. Audit risk questions typically require a number of audit risks to be identified ( $\frac{1}{2}$  marks each), explained ( $\frac{1}{2}$  marks each) and an auditor's response to each risk (1 mark each). Typically candidates can be required to identify and explain in the region of six to eight risks and responses.

The scenarios usually contain more issues than are required to be discussed. It is pleasing that candidates planned their time carefully and generally only attempted to list the required number of issues. However, in common with other sessions, a significant number of candidates often did not explain how each issue could impact on the audit risk and therefore were not awarded the second  $\frac{1}{2}$  mark. To explain audit risk candidates need to state the area of the financial statements impacted with an assertion (e.g. cut off, valuation etc.), a reference to under/over/misstated, or, a reference to inherent, control or detection risk. Misstated was only awarded if it was clear that the balance could be either over or understated.

Auditor's responses still continue to be weak and while an auditor's response does not have to be a detailed audit procedure, rather an approach the audit team will take to address the identified risk. The responses given were sometimes too weak e.g. "discuss with management" or the response focussed on what management should do rather than the auditor e.g. "install CCTV "as a response to "fraud risk regarding stolen inventory at a warehouse".

'Hurling & Co' from the 'Sample March/June 2017 Questions' is a good scenario based question on audit risks and responses to practice.

Audit risks and response questions can also be linked with a factual knowledge question; 'Cupid & Co' from the 'Sample September/December 2017 Questions' being a good question to practice.

Audit risk questions can also be combined with a requirement to calculate ratios, these ratios then link into the risk and responses requirement. In this session it was pleasing that on the whole candidates' ratios were relevant and accurately calculated. 'Centipede Co' from the December

2016 exam is a good question to further practise the skill of calculating ratios and applying these to a risk and response question.

### **Internal control**

This area of the syllabus requires both an ability to describe and evaluate internal controls techniques and audit tests, and, also an ability to make appropriate recommendations.

Internal control questions typically require internal control deficiencies to be identified ( $\frac{1}{2}$  marks each), explained ( $\frac{1}{2}$  marks each), a relevant recommendation to address the control (1 mark), and, often a test of control the external auditor would perform to assess whether each of these controls, if implemented, is operating effectively (1 mark). Internal control questions can also include the identification ( $\frac{1}{2}$  marks each) and explanation ( $\frac{1}{2}$  marks each) of key controls which the auditor may wish to rely on as well as tests of controls (1 mark) to assess the operation of these controls. Lastly these applied internal controls may be required to be presented in the form of a report to management, in which case a covering letter (2 marks) is required.

Internal control questions often include a knowledge or factual requirement. In common with planning and risk questions, these are relatively straightforward marks and candidates should be attempting to score maximum marks. However it was disappointing to note in this session that many candidates failed to score many marks in factual requirements. It is imperative that future candidates ensure that they devote adequate time to learning the knowledge areas of the syllabus as well as practicing this style of question. A good example question is 'Heraklion Co' from the September 2016 exam.

Internal controls questions remain a highly examinable area and performance in December 2017 was mixed.

The scenarios included in exam questions contain more issues than is required to be discussed. In this sitting while it was pleasing to see that candidates on the whole were able to identify an adequate number of issues, a number of candidates incorrectly identified deficiencies from the scenario. For example, some candidates incorrectly identified as a weakness that "manufacturing employees were paid in cash" even though the scenario clearly stated, "management do not intend to change the payment method of employees". It is imperative that candidates read the scenario carefully before answering the question.

In common with previous sittings some candidates did not clearly explain the implication of the deficiency identified. It is important the explanation fully details the impact to the company of the identified deficiency e.g. for the deficiency of "the sales ledger clerk recording new customers in the master file with no review" the implication is this could lead to "customers not being set up correctly resulting in a loss of customer goodwill". Many candidates did not go on to explain the impact on the company, in this example "the loss of customer goodwill".

Most candidates were able to provide good recommendations to address the deficiencies they identified. However some of the recommendations were either poorly described, did not clearly address the specific control weakness identified or were impractical suggestions.

'Equestrian Co' from the 'Sample March/June 2017 Questions' is a good internal control deficiencies and recommendations question to practice.

Disappointingly, the requirements for tests of controls that the auditor should perform were often not well explained by candidates (e.g. repeated use of the word "check"), did not address the controls identified, were vague in the repeated use of 'observe' or were substantive audit procedures rather than tests of control.

Tests of controls are a key requirement in internal control questions and future candidates must ensure they practice these types of questions in advance of their exam. 'Halley & Co' from the 'Sample September/December 2017 Questions' is a good internal control deficiencies, recommendations and test of controls question to practice.

It was pleasing in this session that many candidates attempted a covering letter. However few candidates included a disclaimer within their covering letter e.g. a disclaimer as to "no disclosure to third parties".

## **Audit Evidence**

This area of the syllabus requires a description of the work and evidence obtained by the auditor required to meet the objectives of audit engagements and the application of International Standards on Auditing.

A key requirement of this part of the syllabus is an ability to describe relevant audit procedures for a particular class of transactions or event. Overall performance in this key syllabus area in this exam session was once again very disappointing.

The December 2017 exam session contained a number of questions in this syllabus area covering a variety of areas across both the statement of profit or loss and statement of financial position, illustrating that candidates must be prepared to tailor their knowledge of substantive testing to any area of the financial statements. In most cases candidates remain unable to tailor their knowledge of general substantive procedures to the specific issues in the question requirements, with many providing tests of controls rather than substantive procedures, or provided incorrect procedures, or concentrating on one type of test e.g. multiple examples of analytical review procedures. Candidates should also note that one mark is available for each well described audit procedure and should consider this when determining how many procedures are required for the marks available.

In particular care must be taken to address the specifics of the question; often the requirement is to describe substantive procedures to address specific financial statement assertions, such as valuation, any tests provided which did not test this assertion would not have scored any marks. A good example to practice is 'Dashing Co' from the 'Sample September/December 2017 Questions'

As addressed in previous Examiner's Reports candidates must strive to understand substantive procedures. Learning a generic list of tests will not translate to exam success – procedures must be tailored to the specific requirements of the question.

A further example of a substantive procedures question to practice is 'Airsoft Co' from the 'Sample March/June 2017 Questions'.

There are many resources available on ACCA's website which will help candidates prepare for this type of question, and practise of the highlighted questions along with other past exam questions, are one of the best ways to help candidates cover the syllabus and become accustomed to this style of question.

### **Review and reporting**

This area of the syllabus requires an understanding of how consideration of subsequent events and the going concern principle can inform the conclusions from audit work and are reflected in different types of auditor's report, written representations and the final review and report.

Questions in this area of the syllabus tend to be scenario-based and may require candidates to describe audit procedures in relation to going concern or subsequent events and one mark is available for each well described procedure. Alternatively they can require an assessment of the impact on the auditor's report due to an unresolved accounting issue.

Performance in audit procedures questions in this area of the syllabus continues to be disappointing. Many candidates remain unable to describe the required number of substantive procedures, or, the procedures were often vague. In addition, some candidates provided incorrect procedures e.g. incorrectly suggesting a "going concern" substantive procedure of 'the auditor contacting the bank to confirm with them that the client's overdraft limit will be extended'

It was disappointing that despite an improvement in auditor's report questions in September 2017, performance in the December 2017 session was disappointing. Candidates are often required to discuss the accounting issue, assess whether the error is material, consider the type of modification, if any, and lastly to discuss the impact on the auditor's report. However candidates often omit the discussion of the issue and/or incorrectly conclude on the type of modification required. Weaker candidates continue to provide every possible report option available, particularly suggesting the use of an Emphasis of Matter paragraph in any given situation.

Auditor's reports are a core area of the syllabus and knowledge of the ISAs in this area is imperative as there have been a number of recent changes to the ISAs. Candidates knowledge of *ISA 701 Communicating Key Audit Matters in the Independent Auditor's Report* was disappointing, particularly in relation to what should be communicated in relation to Key Audit Matters. Good questions to practice are 'Airsoft Co' from the 'Sample March/June 2017 Questions' and 'Snail & Co' from the December 2016 CBE exam

### **Exam technique**

Good exam technique is vital for success in F8. It was especially pleasing to see so many candidates structure their answer in columns, especially for audit risk and internal control questions. Not only does this make it easier to mark, it makes it easier for a candidate to review

their answer and ensure they have covered all of the relevant areas, for example. it is clearer to see at a glance if a test of control has been omitted.

Additionally, it was pleasing that where a question asked for a specific number of issues to be addressed, such as risk and internal control questions, most candidates attempted to identify the required number demonstrating appropriate exam technique and time management.

Disappointingly though this session, in common with September 2017, some question requirements were not attempted. This tended to be in knowledge areas, substantive testing questions and some auditor's report questions. This could have been down to a lack of knowledge or exam preparation and again candidates are encouraged to practise questions to time in advance of the exam.

Candidates need to ensure that their answers relate to the scenario given. In questions requiring a description of substantive procedures these were often too generic. Candidates need to particularly ensure that substantive procedures and tests of control are clearly described as to exactly 'how' the procedure should be performed. Also an adequate number of procedures must be provided; a four mark question should have at least four well described procedures to maximise the candidates' mark.

### **Word processing technique**

Candidates sitting CBE questions used the word processing tools available adequately. However some CBE answers, especially those contained within the pre-formatted tables provided, tended to be quite brief almost note like. While bullet points are acceptable, answers must be sufficiently detailed in order to maximise marks.

Occasionally, the typed words in some candidates' answers were difficult to understand as the words were misspelt. Candidates are reminded that there is no automatic spelling checker tool available and to try and manage their time appropriately to allow for a review of their answers before submission.

There are resources on ACCA's website giving more guidance on how to use the word processing tools. A video introducing the main functionality and how to make best use of these in F8 can be accessed via the video [an introduction to F8 CBEs](#).

### **Guidance and Learning Support resources to help you succeed in your exam**

Preparing for the F8 exam can appear challenging but there are many resources available to help you. You should refer to these throughout your studies.

You should make sure you have made use of all of the resources found [under technical articles for F8](#) – these include technical articles, study support videos and exam technique resources – all developed with you in mind.

Additionally [Examiner's Reports](#) are available after each exam session. These are a valuable tool for understanding the exam, avoiding common pitfalls and developing exam technique. Work through the F8 resource 'A guide to using the examiner's report' if you are sitting the exam for the first time or 'A guide to reflection' if you are retaking your exam. Both of these interactive tools can



be found under the [technical articles page](#) for F8. These have been developed to sit alongside the self-study guide and the [retake guide](#) respectively, and provide you with further pointers for using the examiner's reports for previous sittings.

It is essential to practise as many exam standard questions as you can in the lead up to your exam, this is critical for F8 as 70% of the marks are written. We strongly recommend that you use an up-to-date question and answer bank from one of our [Approved Content Providers](#) but if this is not possible then work through the most [recent past exams](#) on our website. However, please note if you are using the past exams that these are not updated for syllabus changes or changes to the exam format since September 2016 and so should be used with caution – so check the [latest syllabus and study guide for changes](#).

It is essential that you have a good understanding of the verbs typically used in ACCA F8 exam questions. Take a look at the article [What is the examiner asking?](#) which sets out some of the most commonly used verbs, and ensure that you understand how these are used in the F8 questions.