



Examiner's report

F8 Audit and Assurance

June 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 CBE 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 which 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.

All questions are compulsory in the F8 examination. 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 practising questions are unlikely to be successful as the questions in Section B 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 session 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 June 2017 examination included questions on the following areas:

- Professional ethics and application of ACCA's Code of Ethics and Conduct
- Internal audit
- Corporate Governance
- Substantive testing including testing on tangible assets, receivables, bank and cash and using the work of others
- Subsequent events; 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 financial reporting is adequate. The following questions have been selected to demonstrate the importance of these key areas.

Example 1

Which of the following matters should the auditor consider prior to placing reliance on the work of the expert?

- (1) The availability of alternative sources of audit evidence
- (2) The technical expertise required to perform the valuation
- (3) The availability of audit staff to complete the evaluation of the expert on a timely basis
- (4) The extent to which the use of the expert can be referred to in the auditor's report

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

The correct answer is A.

Candidates were told in the scenario that management had appointed an expert during the year and therefore the requirements of ISA 500 Audit Evidence were applicable in determining whether reliance can be placed on the expert. ISA 500 states that in order to determine reliance, the auditor should consider whether there are other sources of evidence available as if so the level of reliance will be reduced and to consider the technical expertise that the expert should possess in order to carry out the work.

It is not appropriate for the auditor to consider at this stage whether staff can be allocated to perform the work as the availability of staff and the ability to perform the work should have been considered at the acceptance stage. While the auditor in certain circumstances may need to refer to the fact that an expert has been used the responsibility to gather sufficient and appropriate evidence on which to base the audit opinion remains solely with the auditor. Therefore considering the extent to which reference can be made to the expert is not an appropriate parameter on which to base reliance.

Example 2

Which of the following procedures should be performed in relation to the revaluation recorded in the year?

- (1) Recalculate the depreciation charge for the year using the updated valuation
- (2) Verify that all the assets in the same class have been revalued in line with IAS 16 *Property, Plant and Equipment*
- (3) Agree the value to the expert's report and recalculate the revaluation adjustment recorded by Gates Co
- (4) Agree that the revaluation surplus has been recorded in the statement of profit or loss

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

The correct answer is A.

The procedures listed as (1), (2) and (3) would all be reliable and relevant tests for the auditor to perform to verify a revaluation surplus. The test listed at (4) is not valid as the surplus, in the circumstances described,

should not be recorded in the statement of profit or loss, but rather should be recorded in other comprehensive income. As such this is not a suitable test to obtain sufficient and appropriate evidence. Many candidates incorrectly selected D demonstrating that accounting knowledge in this area was lacking and therefore they were not able to identify procedures to verify appropriate accounting treatment by the client.

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.

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 with candidates being required 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. It is important in factual questions that candidates answer the question set rather than the one they would like to see. In this session a minority of candidates tended to pick out one or two words, such as planning, from the requirement and then write everything they knew about this, rather than addressing the actual requirement. This demonstrates poor exam technique and results in candidates wasting valuable time in the exam.

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. During the June session it was pleasing to see that the majority of candidates planned their time carefully and generally only attempted to list the required number of issues. However, as in previous sessions a significant number of candidates 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 accounts impacted with an assertion (e.g. cut off, valuation etc.), or, 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 improved marginally on previous exam diets, but 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 "review board minutes". A minority of candidates discussed business risks and therefore concentrated their responses on what management should do rather than the auditor.

Audit risk and response questions are often linked with a factual knowledge question; 'Sitia Sparkle Co' from the September 2016 exam is a good example of this. Or the questions can be combined with a requirement to calculate ratios, these ratios then link into the risk and responses requirement. When considering ratios it is important that where there are significant changes year on year these may be indicative of audit risk. 'Centipede Co' from the December 2016 exam is a good question to practice the skill of calculating ratios and applying these to the risks and responses requirement.

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 on which the auditor may wish to place reliance as well as tests of controls (1 mark) to assess control operation. 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 controls questions remain a highly examinable area, performance in June 2017 saw an improvement over prior sittings. It was noted that some candidate's answers were quite lengthy, sometimes to the detriment of later questions. Candidates are therefore reminded to apply effective exam technique and to plan their time carefully.

The scenarios included in exam questions contain more issues than is required to be discussed and in this sitting it was pleasing to see that candidates, on the whole were able to identify the required number of issues.

However, in common with previous sittings some candidates did not clearly explain the implication of the deficiency. It is important for the explanation to fully detail the impact to the company of the identified deficiency, for example for a deficiency of 'customer statements not being followed up by credit control' the implication is this is that it could lead to an increased risk of errors not being resolved on a timely basis and/or an increase in bad debts.

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.

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 quite commonly 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 practise these types of questions in advance of their exam. In terms of structure, the internal control questions examined in June 2017 were similar to 'Baggio Co' from the Specimen September 2016 exam and 'Equestrian Co' from the sample March/June 2017 exam.

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 June 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, providing vague tests.

In particular care must be taken to address the specifics of the question; often the requirement is to describe substantive procedures to address a specific assertion, such as completeness, and as such any tests provided which did not address this assertion would not have scored marks. Also questions may require analytical procedures only, therefore any tests of control or detailed tests would not have scored marks as they did not answer the question asked.

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 good example to practice is 'Rose Health Club Co' – one of the 'Extra Constructed Response Questions' available [here](#) alongside the other specimen resources in ACCA's study resources section. Another useful example is 'Elounda Co' from the September 2016 exam. These again highlight the importance of thorough preparation.

There are many resources available on ACCA's website which will help candidates prepare for this particular type of question, and practise of these along with other past exam questions, is one of the best ways to help candidates cover the syllabus and become more accomplished in answering questions on this topic.

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 1 mark is available for each well described procedure. Alternatively questions can require an assessment of the impact on the auditor's report due to an unresolved accounting issue.

Performance in these areas continues to be disappointing. Most candidates remain unable to describe the required number of substantive procedures and the procedures identified are often vague and poorly explained.

Questions on auditor's reports also continue to be poorly attempted. 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. Candidates often omit the discussion of the issue and incorrectly assess the materiality of the issue. Some candidates continue to provide every possible type of auditor's report available and include random auditor's report terminology, such as modification or pervasive, into their answer, leaving their answer confused and irrelevant. In addition, a significant minority of candidates continue to assume that an emphasis of matter paragraph is an appropriate answer to all auditor's report questions, which it is not. An emphasis of matter paragraph is used in very particular circumstances and candidates are once again reminded that they must ensure that their knowledge of ISA requirements is adequate.

Candidates are reminded that auditor's reports are a core area of the syllabus and knowledge of the ISAs in this area is imperative. A good question to practice is 'Vieri Motor Cars Co' from the Specimen exam.

Exam technique

It was pleasing that where a question asked for a specific number of issues to be addressed most candidates attempted to identify the required number demonstrating appropriate exam technique and time management. Almost all candidates attempted all questions, however as noted some candidates spent too long on internal control questions leading to time pressure for later questions, especially substantive procedures. A small minority left some parts of questions unanswered.

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, as for example it is clearer to see if a test of control has been omitted.

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.

Furthermore an adequate number of procedures must be provided; a six mark question should have at least six well described procedures to maximise the candidates' mark.

Word processing technique

Candidates sitting CBE questions used the word processing tools available adequately. Occasionally, the typed words in some candidates' answers were difficult to understand. This may be due to the candidates typing at speed. 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.

In addition some CBE answers, especially those contained within the pre-formatted tables provided, tended to be quite brief almost note form. While bullet points are acceptable, answers must be sufficiently detailed in order to maximise marks.

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 in the constructed response questions. 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.