



F8 Examiner's report

March 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 questions – we focus on two specific questions
- 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 almost all candidates attempted all 15 questions, across the three OT cases. Candidates preparing for the next examination of F8 are advised to work through the December 2016 exam and other past exams and to carefully review how each of the correct answers were derived and future candidates should aim to revise all areas of the F8 syllabus, rather than attempting to question spot.

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.

Sample Questions for Discussion

Example 1

Following discussions with one of your firm's clients, the audit engagement partner has advised that detailed testing will need to be performed on the valuation of inventory due to some concerns over the net realisable value of certain products.

Which of the following matters disclosed by the client is an indicator that net realisable value could be lower than cost?

- A** General market prices for individual gemstones have remained static for the last three years
- B** Demand for certain items of jewellery has increased marginally over the past year
- C** Trade discounts given by suppliers have increased in the past year
- D** There has been an increase in the average time taken to manufacture each individual jewellery piece

The correct answer is D

An increase in the average time to manufacture individual items is likely to increase the costs of production (labour and other direct production costs) meaning costs will rise relative to the net realisable value.

The other answers are incorrect for the following reasons:

The general market price for individual stones remaining static will have no impact on net realisable value or cost.

An increase in demand for completed items should increase the net realisable value in comparison to cost.

An increase in trade discounts will reduce the cost of gems being bought for manufacture into jewellery items therefore should increase the difference between net realisable value and cost.

Example 2

You are an audit senior and have been asked to draft the auditor's report

Which of the following are elements which should be included in an unmodified auditor's report for a listed company as per ISA 700 (Revised) *Forming an Opinion and Reporting on Financial Statements*?

- (1) Basis for opinion paragraph
- (2) Other reporting responsibilities
- (3) Key audit matters
- (4) Other matters paragraph

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

The correct answer is C

(1) A 'basis for opinion' paragraph explains how the audit was conducted

(2) An 'other reporting responsibilities' paragraph is included if the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's

responsibilities under the ISAs. This paragraph must therefore be included in the auditor's report for a listed company

(3) Key audit matters are those matters, in the auditor's judgement, which are the most significant from the audit. A 'key audit matters' paragraph is required for all listed companies.

(4) is incorrect as an 'other matters paragraph' draws users attention to issues outside the scope of the financial statements. This would result in a modified report with an unmodified 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 question and performance in this area remains satisfactory, Candidates are generally asked to identify and explain a set number of issues from a given scenario and give relevant recommendations to counter the risks identified.

It is pleasing to note evidence of candidates planning their time carefully and generally only listing the required number of issues.

One mark was available for each well explained issue. As in previous sittings, while it was pleasing that candidates were able to identify relevant issues from the scenario, candidates often did not explain the issues correctly, or in sufficient detail, therefore many candidates scored $\frac{1}{2}$ marks rather than one mark for each issue. Therefore, a candidate who identified an issue and stated the type of threat scored $\frac{1}{2}$ marks, to be awarded the second $\frac{1}{2}$ mark the candidate had to explain why this caused an ethical problem. The explanation was often weak, for example explaining the threat of 'self-interest' resulting from contingent audit fees, as "the auditor will not be independent" is not sufficient. The candidates needed to comment on the possibility of the auditor "ignoring audit adjustments that reduce profits" to obtain the second $\frac{1}{2}$ mark.

Candidates may also be presented with a scenario-based corporate governance question and again candidates tend to perform well in this area. In this type of question candidates are asked to identify and explain a set number of corporate governance weaknesses from a scenario and provide relevant recommendations to address each weakness.

It is pleasing that candidates planned their time carefully and generally only attempted to list the required number of issues. Half a mark was available for each weakness identified and a further half mark if the candidate explained why this was a weakness. One mark was available for each recommendation. Candidates' performance was generally pleasing, however some candidates worded their recommendation as either a "statement" or an 'objective' rather than an "action" and so were often not awarded the recommendation mark. For example in response to the weakness arising when 'it is proposed that the chief executive temporarily also takes over the role of chairman' many candidates stated as their recommendation that "the chairman should not be the chief executive" and hence scored 0 mark for the recommendation as this is an objective, to obtain the 1 mark for the recommendation they needed to say e.g. "an independent NED should be appointed as chairman".

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 depends on the ability of students to recall their knowledge 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).

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, a large 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 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 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".

A minority of candidates discussed business risks and therefore concentrated their responses on what management should do rather than the auditor

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 correctly (1 mark). Internal controls questions remain a highly examinable area and in common with prior sittings, performance in the internal control questions in March 2017 was mixed.

The scenarios included in exam questions contain more issues than is required to be discussed and it was therefore disappointing that some candidates did not identify the required number of issues noted in the question. In addition, some candidates did not clearly explain the implication of the deficiency, for example if PPE is not regularly physically verified then an implication of this deficiency is the possible misappropriation of assets.

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.

The tests of controls that the auditor should perform were often not well explained by candidates (eg repeated use of the word “check”), did not address the controls identified, or were substantive audit procedures rather than tests of control.

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 very disappointing.

The March 2017 exam contained a number of questions in this syllabus area covering a variety of areas including trade payables and accruals, bank balances, directors’ remuneration, property plant and equipment, inventory and receivables, 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 vague tests. 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.

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 was available for each well described procedure.. 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 poorly explained. For example, ‘review board minutes’ on it’s own would only be awarded ½ marks as candidates need to explain more specifically, ‘review the post year end board minutes to identify any other issues that might indicate financial difficulties for the company’ to be awarded 1 mark.

Questions that require candidates to form an opinion of the type of audit opinion to be issued also continue to be poorly attempted. Candidates are reminded this is a core area of the syllabus and knowledge of the ISAs in this area is imperative.

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.

It was also pleasing to note that the majority of candidates were able to present their answer in a suitable format, especially for in audit risk, internal control, ethics, and, corporate governance questions.

While a significant number of candidates attempted all questions, some candidates did not always attempt a response.

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.

Word Processing technique

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.

Guidance and Learning Support resources to help be successful in the examination

Preparing for the F8 exam may appear daunting 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.

It is essential to practise as many exam standard questions as you can in the lead up to your exam. 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 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 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.

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.