



Examiner's report

F8 Audit and Assurance

September 2016

General Comments

There were two sections to the examination and all the questions were compulsory. The format of the F8 exam changed with effect from September 2016. Section A consisted of three OT cases each comprising of five OTs for a total of 30 marks, which covered a broad range of syllabus topics. Section B had one constructed response question worth 30 marks and two constructed 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 written questions in particular aim to test candidate's application skills.

Specific Comments

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 September 2016 full specimen exam and past exam questions 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.

The three OT cases questions covered a number of syllabus areas, one of which was focused on substantive testing and audit sampling. Performance, on this case in particular was unsatisfactory with many candidates failing to identify the correct answers. Candidates performed better on the case on audit framework and regulation case, which focused on ethical issues.

Section B

The three constructed response questions in Section B tested candidates understanding of the audit and assurance syllabus, which is structured into the following areas:

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

Question sixteen

Question 16 for 30 marks covered the areas of internal controls, documenting systems, fraud and audit procedures for revenue. Candidates' performance was mixed across this question.

Question 16a addressed methods used by the auditor of documenting client accounting systems and advantages and disadvantages for each. This knowledge area has been regularly examined, but it was disappointing to see that a significant minority of candidates did not understand the question requirement. Incorrect answers focused on the two methods being either manual or computerised recording or discussed documents that are used in the sales cycle such as the sales order and invoice.

Candidates who scored well tended to describe the methods of narrative notes and flowcharts. Some candidates failed to describe the method and so only gained the ½ identify mark. Additionally some candidates mixed up advantages and disadvantages between the methods hence describing notes as being difficult to amend rather than flowcharts.

Question 16b tested the area of internal controls, these types of questions typically require internal control deficiencies to be identified (½ marks each), explained (½ marks each), a relevant recommendation to address the control deficiency (1 mark). Internal controls questions remain a highly examinable area and in common with prior sittings, performance in the internal control question in September 2016 was mixed.

Candidates were able to identify the internal control deficiency from the scenario however many candidates did not clearly explain the implication of the deficiency. In order to gain the ½ explanation mark for the deficiency candidates must fully explain the impact on the company. Additionally some candidates did not understand or incorrectly identified deficiencies, e.g. new customer leads being generated by a third party or sales staff visiting customer sites personally; these were not control deficiencies.

The scenario in the exam contained more issues than was required to be discussed and it was therefore pleasing that candidates generally only identified the required number of issues noted in the question.

Most candidates were able to provide good recommendations to address the deficiencies. However some of the recommendations were either poorly described, did not clearly address the specific control weakness identified, were impractical suggestions or were incomplete. For example the recommendation for sequentially numbering orders should have also suggested regular sequence checks to be undertaken, however many answers stopped at sequentially numbering the orders.

Question 16c covered controls to prevent a payroll fraud from occurring along with an explanation of how the control would mitigate the risk of the fraud reoccurring. Candidates' performance was unsatisfactory in this question.

A significant number of candidates were unable to apply their audit knowledge to this application area. Some just repeated how the fraud had taken place trying to explain the controls that had broken down rather than suggesting preventive controls. Others listed general controls that should be in place over the payroll system or were too generic such as "establish an internal audit department' or 'set up segregation of duties."

Additionally many candidates didn't describe how the controls would mitigate the fraud risk, or simply stated "this would mitigate the risk" or "this will reduce the fraud risk" without explaining how.

Question 16d covered substantive procedures for revenue and candidates' performance was satisfactory. Many candidates provided a range of analytical review procedures as well as tests of detail. Some tests lacked sufficient detail such as "compare revenue to prior year" without discussing investigating significant differences or were vague. In addition a minority of candidates listed receivables procedures rather than revenue.

Question Seventeen

Question 17 for 20 marks covered the area of audit evidence and going concern. Performance across this question was disappointing.

Question 17a was scenario based and required substantive procedures for three areas; revaluation of property, plant and equipment (PPE), WIP valuation and bank loans. 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. As in previous diets overall performance in this key syllabus area was once again disappointing.

Most candidates were unable to tailor their knowledge of general substantive procedures to the specific issues in the question requirements, or provided vague tests such as "check" or objectives of "ensure that..." 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.

On the revaluation question many candidates provided general PPE tests on areas of title or additions/disposals. Additionally candidates focused on authorisation of capital expenditure or discussing why PPE had been revalued.

Answers over auditing the WIP valuation were particularly disappointing. A significant proportion of candidates focused on inventory counts rather than valuation. Candidates must read the question and apply their knowledge to the scenario provided.

Substantive procedures provided for the bank loan were stronger, however, again general bank and cash tests were provided rather than for the bank loans. Additionally some candidates strayed into auditing going concern rather than the liability associated with the bank loan.

Question 17b on going concern procedures was answered satisfactorily. Many candidates were able to generate a sufficient number of points to provide a strong answer. However some candidates failed to understand the question was about procedures rather than going concern indicators. Additionally some procedures lacked detail e.g. "review board minutes" but the procedure failed to explain what this key source of evidence was being reviewed for.

Question Eighteen

Question 18 for 20 marks covered audit planning, audit risks and responses and quality control. Performance was mixed across this question.

Question 18a was a knowledge based requirement on the benefits of planning and candidates performed well. Most were able to identify and explain a sufficient number of points. A minority of candidates focused on tasks performed at the planning stage, such as setting the budget, rather than the overall benefits of planning.

Question 18b required candidates to identify and explain the risks from a scenario and give an auditor's response to address the risks. As noted in previous Examiner's Reports a fundamental activity in planning is the assessment of audit risk, and this remains a highly examinable area. Audit risk questions typically require a number of audit risks to be identified (½ marks each), explained (½ marks each) and an auditor's response to each risk (1 mark each). Performance in the audit risk question in September 2016 was mixed.

The scenario contained a significant number of issues, and most candidates were able to identify the required number of issues. However many candidates incorrectly identified issues such as the supervisor having responsibility for a large audit team for the first time, or failed to understand the accounting issue such as the incorrect capitalisation of training costs within plant and machinery.

In addition, a large number of candidates often did not explain how each issue could impact on the financial statements and therefore were not awarded the explanation mark. To explain audit risk candidates need to state the area of the accounts 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 were mixed. While an auditor's response does not have to be a detailed audit procedure, rather it is the approach the audit team will take to address the identified risk, the responses given were sometimes either too weak e.g. "discuss with management" or, did not address the issue due to a failure to comprehensively understand the risk.

In comparison to recent exam sessions, it was disappointing that a significant minority of candidates discussed business risks and therefore concentrated their responses on what management should do rather than the auditor (e.g. in relation to the change in the bonus scheme, an inappropriate response was that the bonus should be changed back to being based on profits).

Answers for question 18c on quality control responsibilities, where attempted, were disappointing. A significant proportion of candidates did not even attempt this question. For those who did, general audit objectives or ethical points were given, rather than those for quality control. Candidates should be prepared to answer questions on quality control which was new to the F8 syllabus from September 2016.