



Examiner's report

F8 Audit and Assurance

September 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 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 September 2017 examination included, but was not limited to, questions on the following areas:

- The concept of assurance and other assurance engagements
- Substantive testing including testing on trade payables, bank and cash and share capital
- Going concern
- 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.

Example 1

Which of the following audit procedures will test for the EXISTENCE of bank and cash?

- A** Review all relevant bank statements to verify that the accounts are held under the company name
- B** Attend the cash count at the year end and re-perform the count
- C** Agree a sample of accounts detailed in the bank confirmation letter to the trial balance
- D** Review the disclosure included in the financial statements to verify only bank accounts as per the bank letter are disclosed

The correct answer is B.

Candidates are reminded that tests for existence need to focus on ascertaining whether the balance is genuine at the year end and is not overstated. 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 to consider whether it would satisfy that objective.

Test A is a test for Rights & Obligations as this test would only confirm that the account was held in the client's name and therefore that the client has the right to the account but it would not confirm that the balance was not overstated at the year end.

Test C is a Completeness test as starting at the bank confirmation letter and agreeing to the trial balance allows the auditor to confirm that all accounts on the letter are recorded. It would not allow the auditor to confirm that all accounts on the trial balance are genuine.

Test D is a Presentation test as it is focussed on the disclosure that is included in the financial statements at the year end.

The only test that would confirm that a recorded balance is both genuine and not overstated is to attend the cash count and to re-perform the count.

Example 2

The company issued 100,000 \$1 ordinary shares in August 20X7. This is currently not reflected in the financial statements for the year ended 31 July 20X7.

If no changes are made to the financial statements which of the following audit opinions will be issued?

- A** Unmodified opinion as the share issue occurred after the year end

- B** Qualified opinion as the financial statements are materially misstated
- C** Qualified opinion as the auditor has not gathered sufficient, appropriate evidence in respect of the share issue
- D** Unmodified opinion with an Emphasis of Matter paragraph drawing shareholders' attention to the share issue

The correct answer is B.

The share issue represents a material non-adjusting subsequent event. So while the transaction will not be recorded until after the year end the event should be disclosed in the financial statements for the year ended 31 July 20X7. This lack of disclosure means that the financial statements are materially misstated and therefore if no changes are made the auditor should issue a qualified opinion.

The majority of candidates selected answer D and candidates are once again reminded that an Emphasis of Matter paragraph can only be used to draw shareholder attention to an issue that is ALREADY disclosed within the financial statements.

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 exam 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 with 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.

In this session it was disappointing to see a significant number of candidates were unable to answer the knowledge marks in this syllabus area. Some answers scored zero marks as points made were completely unrelated to the question asked. It is important in factual questions that candidates answer the question set rather than the one they would like to see. This unsatisfactory performance also indicates a lack of preparation and awareness of the knowledge areas relating to planning and risk. A good question to practice, which combines factual knowledge and audit risk and response, is 'Sitia Sparkle Co' from the September 2016 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 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 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 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 vague e.g. "discuss with the finance director" or they were impractical such as "recruit more audit staff" for the risk of the auditor not attending all the company's inventory counts. Additionally, candidates continue to concentrate 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 (½ marks each), explained (½ 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 control questions can also include the identification (½ marks each) and explanation (½ 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 key 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 straight forward marks and candidates should be attempting to score maximum marks. However it was disappointing to see 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.

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 an adequate number of issues. However, in common with previous sittings some candidates did not clearly explain the implication of the deficiency. It is important the explanation fully details the impact to the company of the identified deficiency, for example for the deficiency of "supplier statement reconciliations not being performed" the implication is this could lead to an increased risk of errors in purchases and payables not being identified on a timely basis.

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

Additionally, this session a significant minority of candidates identified issues from the scenario which were not actually deficiencies. For example some stated that 'the warehouse team process receipt of goods from suppliers' and that this was a deficiency as it resulted in a lack of segregation of duties. This is not a deficiency.

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 practice these types of questions in advance of their exam. In terms of structure, the internal control questions examined in September 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 September 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 incorrect procedures, for example giving sales tests when the requirement was for receivables substantive procedures.

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 completeness, any tests provided which did not test this assertion would not have scored any marks.

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 'Snail & Co' from the December 2016 CBE exam. These again highlight the importance of thorough preparation. There are many resources available on the ACCA's website which will help candidates prepare for this particular type of questions, and practise of these 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 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 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 these areas improved this session. Most candidates were able to confidently generate going concern procedures, however for a significant minority these procedures were often vague and poorly explained.

This session performance on questions in relation to auditor's reports improved significantly. 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 incorrectly assess the materiality of the issue. Weaker candidates continue to provide every possible report option available and include random words, such as modification, into their answer in a context which makes no sense.

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. A good question to practice is '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 easier 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 it was quite common to see question requirements which were not attempted or which only contained a few points for say a five mark requirement. This tended to be in knowledge areas and substantive testing questions. As noted already, this could have been down to a lack of knowledge, exam preparation or poor time management.

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 five mark question should have at least five 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 quite 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 F8 questions.