

Examiner's report

F8 Audit & Assurance

September 2015

The ACCA logo is a black square with the letters 'ACCA' in white, bold, sans-serif font.

General Comments

There were two sections to the examination paper and all the questions were compulsory. Section A consisted of 12 multiple-choice questions (one and two marks each), which covered a broad range of syllabus topics. Section B had four written questions worth 10 marks each and two longer written questions worth 20 marks each; testing the candidates' understanding and application of audit and assurance in more depth.

Specific Comments

Section A

It was pleasing to see that once again almost all candidates attempted all of the questions. Candidates preparing for the next F8 examination are advised to work through the pilot paper, past exam papers and sample questions discussed below, 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 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

Which of the following are appropriate audit procedures to test for COMPLETENESS of trade payables at the year end?

- (1) Review outstanding invoices in the purchase ledger greater than three months old and enquire of management whether they are valid outstanding liabilities
- (2) Perform supplier statement reconciliations for a sample of suppliers
- (3) Review bank statements for payments made after the year end to identify those payments relating to pre year-end liabilities
- (4) Select a sample of invoices in the purchase ledger at the year end and agree payments made to bank statements post year end

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

This question tested candidates' knowledge of audit procedures and their understanding of financial statement assertions. This question was not well answered by candidates. When generating audit procedures it is important that candidates are able to differentiate between the assertions being tested. The four audit procedures listed were all valid procedures for auditing payables, however only two focussed on the assertion of completeness. The key to passing this type of question was to identify what assertion each procedure was testing.

Procedure (1) focussed on asking management whether old, outstanding purchase invoices already in the purchase ledger were valid; hence this test addressed the assertion of existence. Similarly, procedure (4) vouching invoices to post year-end payments also addressed the assertion of existence. Procedures (2) and (3)

however both addressed the assertion of completeness. Procedure (2) performing supplier statement reconciliations is using third party evidence to ascertain if all payables have been recorded at the year-end. Procedure (3) reviewing post year-end payments is an audit procedure to search for unrecorded year-end liabilities. Therefore the correct answer was D (2 and 3 only)

Future candidates should take note that they must be able to correctly relate the type of procedure with its related assertion.

Example 2

Amit & Co is finalising the audit of Triangle Co, which is the subject of a litigation claim. This will not be settled until after the audit report has been signed. If the claim is lost, this could cause doubt over the going concern status of the company. The directors have correctly disclosed this matter in the financial statements. The issue is considered material and pervasive.

Which audit opinion should be issued for Triangle Co?

- A Unmodified opinion with an emphasis of matter paragraph
- B Qualified opinion
- C Adverse opinion
- D Modified opinion with an emphasis of matter paragraph

This question tested candidates' knowledge of audit reports when there is doubt as to the continued going concern of a company. This question was not well answered by candidates. When answering questions on possible modifications to an audit report due to doubts over to going concern, it is important that candidates consider two criteria: Firstly whether the matter is material and not pervasive, or, whether it is material and pervasive. Secondly whether the disclosures on going concern have or have not already been correctly made in the financial statements.

Answer B – qualified opinion: This does not meet the first criteria as a qualified opinion is given when a matter is material and not pervasive. The question states the matter is material and pervasive.

Answer C - adverse opinion: This correctly meets the first criteria as an adverse opinion is given when a matter is material and pervasive. However, it does not meet the second criteria as the question states that the directors have already correctly disclosed this matter.

Answer D – modified opinion with an emphasis of matter paragraph: A modified opinion would be given in this situation only if the auditor disagreed with whether adequate disclosure had been made of any material uncertainties affecting the going concern. The question states the directors have correctly disclosed the matter so therefore no modification to the audit opinion is necessary. Further, including an emphasis of matter paragraph does not constitute an opinion modification; it just draws the readers' attention to an important area disclosed in a note to the financial statements.

The correct answer is A: the auditor would not modify the opinion as adequate disclosure has been made, however they would include an emphasis of matter paragraph to draw readers' attention to this area.

Section B

The six written 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 regarding the functions of an audit and distinguishing between internal and external audits tend to be more factual, knowledge based questions and hence depend on the ability of the students to recall this knowledge in the exam. Whereas questions discussing corporate governance and professional ethics tend to be based on a scenario and the candidates have to identify and explain the areas of importance from the scenario and then give recommendations for each issue.

The scenario-based ethics question in the September 2015 exam was generally well answered. Candidates were asked to identify and explain a set number of issues from a scenario and give relevant recommendations to counter the risks identified.

It is pleasing that candidates planned their time carefully and generally only listed the required number of issues. One mark was available for each well explained issue. Whilst 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 most candidates scored 0.5 rather than one mark for each issue. In addition, some candidates copied out large sections of the scenario without necessarily realising that there can be two issues in one sentence in the scenario and hence therefore did not go on to explain the consequences of and recommendation for each individually.

The recommendations to counter each issue were generally clear, however some answers were a bit too brief and impractical.

The presentation of candidates' answers was pleasing. Most used a two-column format: the first column to identify and explain the issue and the second column to give a recommendation to improve the issue.

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.

As noted in previous Examiner's Report; 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 (0.5 marks each), explained (0.5 marks each) and an auditor's response to each risk (1 mark each). Performance in the audit risk question in September 2015 was mixed.

The scenario contained more issues than were required to be discussed and it was therefore pleasing that candidates generally only identified the required number of issues as noted in the question. However candidates often did not explain how each issue could impact on the audit risk and therefore were not awarded the second 0.5 mark. To explain audit risk candidates need to state for each issue if this could result in a balance being over stated, under stated, misstated, misclassified, or, a going concern problem. Misstated was only awarded if it was clear that the balance could be either over or understated. Some candidates noted for more than one issue that the audit risk was "going concern", this risk was only awarded once.

Auditor's responses were mixed. Whilst 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 often either too weak (eg "discuss with management") or not always appropriate (eg "obtain written representations").

It was pleasing to note that few candidates discussed business risks and concentrated their answers on the risk of a misstatement in the financial statements.

Further it was pleasing to note that many candidates presented their answers well using a two-column approach with audit risk in one column and the related response in the other column

Audit risk questions may also require a calculation of relevant ratios in order that the auditor can identify the key areas of risk in the financial statements. If this is required, as it was in September 2015, it is noted that the candidates should only provide one ratio per area of the financial statements (eg either "inventory days" or "inventory turnover"), not include calculations of movements year on year (eg "revenue has increased by x%") and also come equipped with a calculator for the F8 exam.

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 controls deficiencies to be identified (0.5 marks each), explained (0.5 marks each) and, often, to give a relevant recommendation to address the control (1 mark each). Occasionally, as in September 2015, candidates may be asked to identify internal control strengths as well as deficiencies. The internal controls questions in the September 2015 exam were well answered.

Candidates were able to confidently identify internal controls from the scenario, however some candidates did not clearly explain the internal control. The scenario in the exam contained more issues than were required to be discussed and it was therefore pleasing that candidates generally only identified the required number of issues as noted in the question. A minority of candidates, rather than evaluating internal controls just formed a point of view as to how well the company was controlling its operations, and, also included more "social" factors such as "the motivational effect of having/not having a bonus system in force in a company" which was not required.



Recommendations to address control weaknesses were on the whole well explained. Most candidates were able to provide good recommendations to address the deficiencies. However occasionally some of the recommendations did not clearly address the specific control weakness identified.

Further it was pleasing to note that many candidates presented their answers well using a two-column approach with internal controls in one column and the related recommendation in the other column

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 (“ISA”).

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. The performance in the September 2015 exam in this area was unsatisfactory. Most candidates were unable to tailor their knowledge of general substantive procedures to the specific issues in the question requirement. Candidates frequently described substantive procedures for a different class of transactions than had been specifically asked for in the question. 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.

This area of the syllabus can also include factual based questions in relation to ISAs. It was noted in the September exam that when definitions/terms, analytical procedures, reliance on internal audit and sampling were asked to be identified and explained by candidates, they identified them fairly well yet their explanations were often unsatisfactory eg using the same word in their explanation as the term they are attempting to explain.

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 audit report, written representations and the final review and report.

Performance in September 2015, identifying from a scenario the impact on the audit report, showed a continued improvement by candidates compared with previous sittings. Questions historically in this area of the syllabus have required an assessment of materiality and the impact on the audit report. In September 2015 candidates were required to address these two areas based on information in a scenario. Some past questions have also asked for audit procedures to address each issue, however this was not required in the September paper so it was disappointing therefore that some candidates spent valuable time describing audit procedures when they were not required in the question.

Most candidates attempted to calculate the materiality of the issues in the scenario. However a worrying number of candidates did not put the decimal point in the correct place for their materiality calculations and hence their calculations were incorrect. In addition some candidates calculated materiality without first discussing the issue and hence could not be awarded the available one mark in this area. Performance on the impact on the audit report was satisfactory, most candidates were able to identify if the issue required a modification and, if so, the type of modification required. An area where candidates struggled was failing to take into account whether disclosures of an issue had already been made in the financial statements and the consequent effect on the audit report.



With regard to an understanding of written representations candidates should be aware that they should limit this as a response to an audit procedure only to those areas that require auditor's judgement. Candidates often, suggested obtaining written representations as a response to a large number of areas.

Candidates generally poorly understood the stages/types of final review procedures. Candidates need to be able to distinguish between completion procedures (such as going concern, subsequent events reviews) and overall review of financial statements procedures (such as a review of compliance with accounting standards and legislation)