

Examiners Report

Exam Name and Code: Audit & Assurance (AA B/2020)

Date of exam - 4th December 2020

Paper performance overview

what worked well with candidates and areas that they were weak on, how they responded.

Overall performance on the paper was disappointing. Questions that were knowledge based scored particularly poorly. Common issues spotted which contributed to the level of performance were:

- Too little use of the OBT for knowledge based areas (such as ethics, reporting and requirements of the ISAs).
- Insufficient practice of questions from the bank, which contained very similar material/model answers to some of the scenario based questions examined here.
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Question 1 performance (also include the breakdown of syllabus area covered)

The syllabus areas covered were: 1a, 1i, 1l, 2f, 2j

Overall performance on question 1 was disappointing . Within the short form questions the candidates performed well on Q1.2 which covered ethical issues on gifts and hospitality and Q1.5 on business risks. However, candidates struggled with question 1.4, but if they had turned to *ISA 315* for help, they could have covered enough points to have passed this question.

Areas where students need to improve include thinking about the financial statements and the implications for the auditor, understanding the difference between Business risk and Audit risk, and to simply read and consider all the information provided, e.g. question 1.2 provided sufficient clues in the question (onsite canteen, not a restaurant) to suggest the value of the gift was inconsequential and could be accepted; in another question many candidates described the role of the FRC as their response even though the requirement specifically asked for 'in respect of ISA'S..

Knowledge of the ICAEW study manual would have helped with questions 1.3 on data analytics routines, and 1.6.

Question 2 performance (also include the breakdown of syllabus area covered)

The syllabus areas covered were: 2j, 3j

Overall performance on this question was reasonable although there were marked differences across the four requirements within the question.

Performance on requirements 2.1 and 2.2 was disappointing. 2.2 was not attempted satisfactorily with many of the points to answer this, could have been found by reading ISA 610. Candidates should be aware from past paper analysis that there will be 1 or 2 requirements in each exam that cover ISA knowledge, and a well prepared candidate would have had the relevant sections of the ISA already highlighted.

Requirement 2.3 had the highest performance, which was pleasing and an indication that candidates had prepared themselves by practicing on past exam questions. However some candidates failed to separate out the justifications from the procedures and subsequently marks were lost.. Candidates who used the data provided were able to score some analytical procedure marks, improving their overall score. Disappointingly, too few candidates took into account that this was a new client and that the previous auditor had resigned, both of which carried some regularly examined marks with them. Some weaker candidates responded by writing their procedures in a general manner and did not display their understanding well enough to score the marks available.

Performance on 2.4 was adequate. Candidates did not immerse themselves with the scenario provided, and some wasted time by including in their answer point (b) from the scenario, although the requirement made it clear that only an analysis of point (a) was required. Many candidates did not consider the reality of the scenario by suggesting an approved supplier list, which given the infrequent nature of the replacement cycle involved, was not as relevant as obtaining quotes for each bespoke purchase. Those candidates who had practiced management letter questions before, and were familiar with some of the general points which always score marks, tended to perform well on this requirement.

Question 3 performance (also include the breakdown of syllabus area covered)

The syllabus areas covered were: 1a; 13, 1i; 2o

Performance on this question was the weakest and disappointing given that it covered ethics, an area where the candidates have historically scored well and have access to many practice questions .

Requirement Q3.1 performed well, however, some candidates failed to see the clue in the requirement that said “as per the Ethical Standard”.

Q3.2 required the candidate to assess the ethical and professional issues raised in three scenarios, performance was weak against this question. The overarching issue was that candidates did not understand the timeline of the scenarios in that these were all completed audits. The actions recommended were often unrealistic or ignored the wider issues contributing to the problems. The actions that should have been considered included review of the firm’s policies in the relevant areas and retraining of staff.

The first scenario involved a lack of briefing of an audit team and lack of supervision during the audit. The second scenario involved an ongoing client which became listed in the year but where the audit firm had not changed its acceptance procedures as a result. If candidates had listed the ethical requirements around listed clients, they would have scored well. The final scenario involved a member of an audit team trying to sell additional services to a client for which they’d earn a bonus as part of the firm’s remuneration policy. If candidates had considered the ethical issues around the service being provided, irrespective of the bonus, and the management and self review threats created, they would have scored well. Candidates lacked understanding of the rules around bonuses based on bringing new work to the firm. Many candidates suggested the individual, or the engagement partner should be disciplined for the bonus, when the issue was with a firm wide policy that needed amending.

Question 4 performance (also include the breakdown of syllabus area covered)

The syllabus areas covered were: 3b; 3h

This question had the best performance overall, completion and reporting questions tend to score well.

Q4.1 required an explanation of going concern factors in a scenario and recommend procedures the auditor should perform to assess the company’s going concern status.

Weaker candidates tended to list facts they had found in the scenario, which scored basic marks, but did not go on to explain why that raised going concern issues.

Q4.2 performed the best, a few candidates who did not score well displayed two issues:

- A scattergun approach to the question, rather than separating out the two potential outcomes
- Using the word “disagreement” which is no longer current terminology. Candidates are advised to use “material misstatement” when describing the reason for a modified opinion for this reason.

Summary and helpful hints

Candidates need to enter the Audit and Assurance exam with a high familiarity of the OBT for use in Ethics questions and any other requirement that is focussed on knowledge of the ISAs. Practising past exam questions from the QB is essential in order to build up knowledge of how to answer each type of question.