Section 1
General comments

Generally, the quality of answers has improved over prior examination sessions, and there were fewer Candidates not able to complete all four questions. There were also fewer instances where case information was overlooked. However, some answers were still lacking in sufficient detail, consequently, these answers did not score well.

Obviously, to do well in the ASF examination, Candidates must be familiar with the audit procedures that are performed for different purposes, such as tests of controls to verify effectiveness of internal controls and substantive procedures to detect material misstatements. Candidates should also make sure that they can explain the purpose of each audit procedure. That is, clearly communicate why an audit team member performs a particular procedure and does not just blindly follow instructions.

Although you may not want to be an external auditor, many of the processes and procedures that an auditor uses are readily transferrable to provide robust internal controls within an entity, regardless of the industry or the entity’s size. The way an auditor obtains an understanding of an entity and its environment and assesses risk form the basis of good business practice and these techniques are easily applied to everyday business situations.

Section 2
Analysis of individual questions

Question 1

The case study company was a new audit client involved in buying and selling office stationery.

This question focused on accounts receivable and accounts payable and was generally well answered. However, there is clearly room for improvement as noted below.

In relation to Part (a), most Candidates were able to identify the relevant assertions in the case. However, the answers on substantive procedures were weak, with some Candidates describing test of controls instead of substantive procedures.

In relation to Part (b), about half of the Candidates failed to identify completeness of accounts receivable as the main issue (i.e. most exposed to the risk of material misstatement). This outcome is surprising as the case clearly stated sales were...
only recorded in the ledger when cash was received and, thus, there was no recording of accounts receivable. This oversight reflects the Candidates’ inability to identify key facts and use the information provided in the case.

A poor understanding of the purpose of the accounts receivable ledger and how this common account is used to track revenue earned but not yet collected by many Candidates indicates that their basic knowledge in relation to accrual accounting and the matching principle is weak. Regardless of the industry that you choose to work in, strong accounting skills in relation to accounts payable and accounts receivable will always be very useful, as these are universal functions within all businesses.

In relation to bank reconciliations (Part (f)), most Candidates were able to adequately convey some of the risks associated with not performing a bank reconciliation on a regular basis. However, some Candidates’ answers suggested they do not know the purpose of bank reconciliation.

Future Candidates are reminded that many of the processes and procedures that you learn through the ASF module are readily transferrable regardless of the industry, type of entity (for-profit, not-for-profit, government instrumentality), or the entity’s size, and are also relevant in your personal life.

**Question 2**

This question featured a used car sales company that purchases used cars, repairs and refurbishes them (replaces worn out parts, completes necessary repairs to make them roadworthy), before selling the cars for a profit. The company also began providing repairs and maintenance services to unrelated third parties during the year. As such, there were two distinct types of inventory in this case – cars held for sale (finished goods) and spare parts (think raw materials, component parts, etc.).

Generally, Question 2 was well answered in terms of identifying deficiencies in the inventory (stock) count. However, some Candidates did not realise the stock count instruction only covered cars but excluded spare parts inventory and thus the inventory count would be incomplete based on the facts provided in the case.

To score well overall for Question 2, Candidates needed to describe the potential impacts of the deficiencies identified on the accuracy of the inventory count and recommend appropriate improvements to make the inventory count accurate.

**Question 3**

Question 3 was a multi-part question (Parts (a) to (e)) and centred on a company that supplied tools for the marine sector, and its customers included shipyards and vessel operators. In the past few years, certain industries were not doing well and some companies were facing the prospect of bankruptcy. The audit of financial statements requires the auditor be alert to indicators (red flags) that show going concern problems. As an accountant in business you also need to be alert to these
red flags. Candidates should be on the lookout for indicators such as negative assets, insufficient cash to repay a loan, unusual changes in ratios, etc.

Pleasingly, a good number of Candidates were able to identify the going concern problem indicators in the case and explain how these affect the company’s ability to continue operating as a going concern.

However, the audit procedures stated were of mixed quality. A handful of Candidates focused on management representation as the main source of evidence. Management representation is necessary and relevant but is not the most important and reliable source of evidence. Other more reliable sources of evidence, such as contracts with an agent or negotiation correspondence with potential buyers, should be expected to be available but these sources were omitted by some Candidates. A review of supporting documentation is a common audit procedure, and Candidates need to be able to identify what specific supporting documentation is required and its purpose.

The answer relating to the going concern issue and its impact on the audit report was of mixed quality. Most Candidates correctly identified the need for a modified opinion, however, few Candidates articulated how the basis for the modified opinion should explain the going concern issue in the audit report.

Question 4

This multi-part question (Parts (a) to (e)) tested the Candidates’ ability to assess the quality and sufficiency of audit work performed and reconcile discrepancies in the confirmation letters received.

Some Candidates did not answer this question fully. This is probably due to poor time management issues. Those Candidates that did complete Question 4, generally did well.

However, there were a small number of Candidates whose answers clearly showed a lack of understanding of audit procedures pertaining to reconciling items as a result of accounts receivable circularisation, such as cash in transit. A tip for future ASF Candidates, is that you should know how to deal with an outcome after the initial audit procedure has been performed. For example, if accounts receivable circularisation replies confirm differences with the accounts receivable ledger balances, what further audit procedures should be performed on the differences and why.

Some Candidates also appeared not to read the case at all, as their answers included sending confirmation letters to accounts receivable when the case clearly stated that confirmation requests had already been sent and the audit team were now working on the replies from the customers.