

Examiner's Report
FINAL EXAMINATION - JANUARY 2014
(61) AUDITING

As a whole, the Performance of the candidates is at a fairly satisfactory level. Question wise performance is as follows:

General observations of Examiners are as follows:

Question No. 01 - (Marks Allotted 20)

This question comprises on the theoretical knowledge of the candidates. Almost all the candidates had answered this question, and few had earned full marks and most of the others earned more than 50% of the marks allotted for this question.

- (a)** From this part of question, examiner tested the theoretical knowledge of the candidates on difference between 'statutory audit' and 'private audit'

Almost all the candidates has answered to this part and given the correct answer to earn marks.

However some instances were found where candidates have incorrectly interpreted the two types of audit.

For eg:-

Some has given the definition of an internal audit for the private audit. They have stated that the private audit was conducted to find the fraud and errors of a company.

Some has given the definition of an audit for the statutory audit. They have stated that it is an audit of financial statements by an external party.

Some has stated that the statutory audit is conducted by public sector companies whereas private audit is conducted by the private sector companies.

Performance: Fairly satisfactory

- (b)** The examiner expects students to list three benefits from an audit of a limited liability company to its shareholders and directors /management.

Almost all the candidates have given the answer for this part. Some of the candidates were explained the objectives (primary & secondary) of an audit instead of benefits.

This is also an area on testing the theoretical knowledge of the candidates.

Few candidates have given poor answers like preventing and detecting fraud and errors, identify the weaknesses of the internal control, gain a goodwill for the Directors etc.

Performance: satisfactory

(c) In this part of the question, examiner tested advantages of an interim audit.

Most of the candidates have given common advantages of a normal financial audit. Only 35% - 40% students have given correct answers and obtained the maximum marks.

Examples for wrong answers are as follows:

- Cost of the interim audit is very low.
- To confirm the audit opinion
- To reduce the audit risk etc.

Performance: Fairly satisfactory

(d) Here the examiner tested the knowledge of the candidates on the Code of Professional Conduct and Ethics applicable to the members of AATSL. Though this was a straight forward question, candidates had not given the correct answer to earn marks.

The examiner required students to explain the ethics; “**integrity and professional behavior**”

Few candidates had given the correct answer and earned full marks allocated for this part, but some of them had not given the correct answer for ‘integrity ‘and ‘professional behavior’.

Performance: Satisfactory

(e) The examiner required students to mention two objectives of quality control policies to be adopted by an audit firm.

It was noted that most of the students have not understood what has been tested by the examiner in the question. It seems that students are lack of knowledge on audit firm level quality control procedures and they have given irrelevant answer such as - compliance with SLAUS, reduce the errors of the auditor, giving a true and fair audit opinion, etc.

Performance: Poor

Question No. 02 - (Marks Allotted 16)

The overall performance for this question is very low. Some candidates have not answered some parts of this question.

As a whole this question has been the worst answered question by the candidates. Majority of the candidates has earned below 5 marks out of the total marks allocated. Only few candidates were able to earn 8 - 12 marks out of the marks allocated.

(a) (i) Here the examiner tested on the definition of the term “audit risk”.

(ii) This part was required students to explain the components of the audit risk.

Majority of the candidates had not given the correct answer for this part of the question.

They have not clearly defined the audit risk and also the components of the audit risk and failed to earn marks for this part of the question. Some have just mentioned the names of the audit risks without explaining those therefore they could not obtain full marks.

Performance: Not satisfactory

- (b) From this part of the question examiner tested theory knowledge as to why detection risk cannot be eliminated completely. Most students have scored marks for this part.

However some candidates have given wrong answers as follows:

- Carelessness of auditor
- Poor technical knowledge of the auditor
- Dishonesty of the auditor
- Loyalty towards the management
- Hiding the information
- Destroying all evidences regarding the fraud.

Performance: Fairly satisfactory

- (c) Here the examiner tested the knowledge of the candidates in applying theoretical knowledge in a given scenario/observation on sales over estimate (management can fraudulently report higher sales value) and two audit procedures that should be performed to address this risk.

This is a practical question. Most of the candidates have not given the correct answers for this part of the question and they have given general audit procedures for validating sales without identified the issues related to the question.

Eg: Checking invoice quantity.

Further some candidates have given completely irrelevant answers such as considering whether impact to the financial statements is material.

Performance: Not satisfactory

Question No. 03 - (Marks Allotted 13)

Overall performance of this question was not satisfactory.

This is a question where the examiner tested the theoretical knowledge of the candidates.

- (a) Here the examiner tests the knowledge of the candidates on the 'factors that determine the extent of audit planning.'

Most of the candidates had failed to answer this part. The question has not been properly understood by the candidates.

Example; candidates have written answers such as; audit scope, audit time, period, etc.

Performance: Not satisfactory

- (b) The examiner required students to give three factors that the auditor should consider in designing further audit procedures to be performed in respect of risk of material misstatements in assertion level.

This part of the question has been answered poorly and no marks were obtain by most of the candidates.

Candidates have written answers such as; existence, knowledge of the auditor, physical limitation in audit etc. for which marks cannot be awarded.

Performance: poor

- (c) The examiner has tested about the procedure that should be performed as an auditor as part of the risk assessment procedures to obtain an understanding of the entity and its environment including its internal controls

Most of the candidates have failed to give the correct answer.

Some incomplete answers were given such as; discuss with the previous auditor, discuss with the suppliers and buyers, perform test of control.

Performance: Fairly satisfactory

- (d) Here the examiner required students to state two factors influencing the sample size to perform substantive audit procedures. Majority of the candidates has given the answer for reasons for selecting the sample and advantages.

Few candidates has written answers as; difficulty in checking all the items, time period of the transactions, number of employees in the client place.

Performance: poor

Question No. 04 - (Marks Allotted 18)

This question tested the theoretical knowledge on IT and the practical knowledge of the candidates, in a given scenario to find out the internal control weaknesses and to give solution to them and also a situation at the stock count at the year end.

- (a) This question is to test the candidates' knowledge on objectives of establishing application controls in a computerized information system (CIS) environment.

Most of the candidates has not given the correct answer and not earned the full marks for this part.

Some candidates have written the answer as; to prevent /detect access control, password control etc.

Performance: Poor

- (b) In the given scenario candidates are requested to identify the weaknesses of internal control procedures and required to explain recommendations to overcome each of those weaknesses and strengthen the internal control procedures.

(i) Most of the candidates were able to identify weaknesses in the given scenario.

(ii) Most of the candidates were given the correct recommendation to overcome the identified weaknesses in part I above to the expected level.

Here most of the candidates had given the correct answer / factors, and has reasonable marks for this part.

Performance: Satisfactory

- (c) From this part of the question, examiner tested substantive procedures to be performed in a given case study both during the stock verification and after the stock verification.

Performance for this part is relatively low. Many candidates have stated the general substantive procedures performed in inventory verification without referring the answer to the given situation.

Further most of students failed to highlight the fact that shortages should be adjusted in the inventory records after the stock take.

Examples for irrelevant / wrong answers are given below:

- Observe that the inventory count is conducted properly by the audit staff.
- Take a sample of the inventory count by the auditor himself
- Get signatures from the store keeper for stock sheets

Performance: Poor

Question No. 05 - (Marks Allotted 18)

This question is to test the theoretical knowledge of the candidates on several areas.

- (a) From this part of the question examiner tested theory knowledge about the difference between “test of controls” and “substantive procedures”.

However only 50% of the students have answered this part and others have just mentioned irrelevant and wrong answers such as follows.

- Test of controls means testing the internal control system with proper audit evidence.
- Substantive procedures required for selecting the samples.

Performance: Fairly Satisfactory

- (b) This question is to test the knowledge of the candidates in substantive procedure on obtaining audit evidence;

Most of the candidates have answered well.

Few have given some incorrect answers which are not up to the satisfactory level.

For eg; on existence of fixed deposits – candidate have written about obtaining management representation letter.

For completeness of the accrued expenses – candidates have written “discuss with the management”.

For accuracy of the salary – ask from employees.

Performance: Fairly satisfactory

- (c) In this question, the examiner tested the candidates' knowledge on reasons for performing audit procedures on; inquiring from lawyers, checking title deed.

Most of the candidates earned marks allocated for the reason for checking the title deed.

But they have failed to answer correctly the reason for inquiring from lawyers.

Candidates' have just mentioned that the legal expenses and going concern of the organization, where the examiner required giving the answer as to verify the existence and completeness of contingent liability.

Performance: Fairly satisfactory

- (d) In this question, the examiner tested the candidates' knowledge on external confirmation taken in audits

- (i) Most of the candidates have not understood the question properly and only written that the external confirmations are more reliable than internal confirmation.
- (ii) Most of the candidates mentioned that positive, negative, mix etc. are the method of calling confirmation.

Few candidates were given the correct answer and earned full marks allocated for this part.

Performance: satisfactory

Question No. 06 - (Marks Allotted 15)

This is the question where theory knowledge tested by the examiner. The answers for this part were clearly mentioned in the auditing study pack.

- (a) From this part of the question, examiner tested functions of COPE.

Most candidates have understood the question and answered well this part.

However some students have written about government departments, municipal councils and other government institutions which are not under the COPE. COPE functions include examine the accounts and audit reports but not conducting the audits.

Performance: Fairly satisfactory.

- (b) From this part of the question, examiner tested what is meant by Corporate Governance.

Most candidates have not answered this part. Students who attempted this part have not scored marks since most of the answers are irrelevant and wrong.

Examples are as follows:

- Institute connected in governing corporate entities.
- ICASL committee for Applying the LKASs and SLAUS

(C) This part is answered well by most candidates. Almost 70% students obtained full marks for this part.

However some students have wasted time by writing various types of audit opinions.

Performance: Fairly satisfactory.

(D) From this part of the question, examiner tested audit procedures that the auditor should perform to identify subsequent events occurred up to the date of the auditor's report.

Most students scored marks for this part. However some students have mentioned actions to be taken by the auditor after identifying the adjusting events.

Performance: Fairly satisfactory.

(E) From this part of the question, examiner tested operating events or conditions that may cast significant doubts about going concern assumption of an entity.

Most of the candidates have mentioned financial and other conditions such as negative cash flows, negative net assets etc.

Performance: Poor

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