

Examiner's Report

FINAL EXAMINATION - JANUARY 2015

(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 16)

- (a) In this part of the question, examiner tested the knowledge of the Candidates about Statutory Audit and Internal Audit and it is required to explain the difference between Statutory Audit and Internal Audit

Many Candidates have correctly explained the difference and as a result obtained the full marks allotted to this part. However, some candidates have given following irrelevant/incomplete answers;

- Statutory audit is conducted by outside auditor and Internal Audit is conducted by Internal Auditor.
- Statutory audit is a year end audit and internal audit is a continuous audit.
- Internal audit is done in the client place and external audit is done in auditor's office.
- Internal audit is the audit done by an employee of the organization to express an opinion on the truth and fairness of the financial statements of the company.
- External audit is done by Auditor General Department and internal audit is done by Chartered Accountants.
- Statutory audit is the audit done by state organizations / governmental institutions.
- Few candidates given the examples such as "private audit, audit of partnership, audit of sole proprietorship" for the internal audit.

It was noted that some candidates who correctly stated the main points which were expected by the examiner have also written lots of irrelevant points, wasting their valuable time only for 02 marks.

- (b) In this part of the question, candidates were required to list two (02) factors that determine the scope of an audit. Majority of the candidates had listed correctly the factors and as a result obtained full marks.

However, some candidates have produced irrelevant answers such as follows;

- Complexity of transactions.
- Audit risk.
- Size of the business / volume of the organization.
- Nature of the business
- Nature of the internal controls of the organization.
- Most of the candidates had mentioned "the requirements of Sri Lanka Accounting Standards instead of Auditing Standards.

- (c) In this part, Examiner tested the knowledge of the Candidates about confidentiality of information acquired during the course of performing professional work. Many Candidates have explained correctly the confidentiality of information and as a result obtained full marks. However, some candidates did not mention that, the information should not use or disclose without proper and specific authority or unless there is a legal or professional right or duty to disclose. Hence, obtained less marks.

Following irrelevant answers were also noted:

- Confidentiality is a fundamental principle in the code of ethics which should be complied by the auditor. It should not be broken by the members.
- Members should not disclose the information about AAT for general public or external institutes.
- Obtain Client's information without the knowledge of the client.

Few of candidates have failed to give the correct answer under the Code of Conduct and Ethics, but they have tried to explain this under the general meaning and lost the marks.

- (d) In this part, Candidates were required to state four (4) important matters to be included in a letter of engagement of an audit of a limited liability company. Many Candidates have correctly stated two or three important matters and obtained marks accordingly. However, some candidates have given matters which are not much important. Ex. Audit fees, requirement of experts etc. Also noted irrelevant answers such as;

- Date of the letter.
- Client's information.
- Period of audit.
- Weaknesses of internal controls.
- Receiver's and sender's address.

Few candidates have written the answer by considering a "Letter of Appointment" of an employee which is totally different from the expected answer.

Performance for this question was fairly satisfactory.

- (e) In this part, Candidates were required to explain responsibilities of the auditor for detecting material misstatements due to fraud. Many Candidates did not know the responsibility of the Auditor at present as per new SLAuS and has stated that management is responsible for detecting fraud and auditor is not responsible and as a result no marks obtained for this part. Only a few candidates have correctly answered and obtained full marks allotted.

Many Candidates have given highly irrelevant answers, such as follows:

- Some Candidates have explained the frauds & errors.
- Risk of detection of frauds & errors.
- Explained how to collect evidences for frauds & errors.
- Reporting requirements when detect material frauds & errors.
- Detection of frauds & errors are not principal objective of the audit, but it is a secondary objective. If the auditor detected frauds & errors, it should be communicated to mgt.
- Some candidates have mentioned that it is not a responsibility if the auditor, while the question itself asked to describe the responsibility.

Performance: Poor

Question No. 02 (Marks Allotted 16)

- (a) (i) In this part, Candidates were required to justify the importance of implementing quality control Policies to be adopted by an audit firm over audit work as per SLAuS 220. This is a theoretical question and expected answers were straightforward. However some candidates did not answer this part of the question satisfactorily and failed to earn marks.

Instead of mentioning the reasons such as performing work that complies with SLAuS, reducing audit risk, using depending action for negligence and use of audit time and resources efficiently, they have written about the secondary objectives of an audit such as prevention and detection of frauds and errors and identifying and reporting of the weakness in internal controls.

Some Candidates have given irrelevant answers such as:

- To obtain more reliable audit opinion.
- To obtain appropriate evidence.
- It is easy to perform audit procedures and carried out audit work methodological way

- (ii) In this part, Candidates were required to state four (04) objectives of the quality control policies to be adopted by an audit firm as per SLAuS 220. This is also a theoretical question. However, many Candidates did not know the objectives and as a result obtained no marks for this part also. They came up with following irrelevant answers;

- To properly communicate the audit program.
- To inform the responsibilities & objectives to assistants.
- Evaluate skills & knowledge of assistants
- Review overall audit plan.
- Evaluate the work done by assistants
- To detect fraud & errors
- Requirements of SLAuS
- Requirements of ICASL

Majority of the candidates have given the answer in terms of “individual level” but not in “audit firm level”. Hence no marks were earned.

- (b) In this part, Candidates were required to list three limitations of internal control. Only few Candidates have correctly listed the limitations and obtained full marks. Many Candidates have stated about the inherent limitations in an audit such as audit evidence is persuasive and not conclusive and use of testing (all transactions are not audited) etc.
- (c) In this part, Candidates were required to identify three (03) weaknesses in the internal control system and to describe how to overcome the weaknesses identified for a given scenario. Majority of the Candidates were able to identify one or two weaknesses correctly and have described how to overcome the said weaknesses and as a result obtained 3 to 4 marks out of 6 marks allotted.

However, there were some candidates who did not answer this part satisfactorily and failed to earn marks. Common mistakes of the candidates were as follows:

- Computer generated invoices to be raised by sales staff with the latest technology, without mentioning that computer generated invoices should be raised by head office for the orders canvassed by sales staff.
- Computer generated receipts to be raised by sales staff with the latest technology, without mentioning that permanent computer generated receipts should be raised by head office for the temporary manual receipts raised by the sales staff for receipts of cash and cheques.

Performance : Fairley Satisfactory

Question No. 03 (Marks Allotted 17)

(a) (i) In this part, Candidates were required to explain the difference between permanent file and current file

Most of the Candidates have attempted this part. Some Candidates obtained full marks as they correctly stated the difference in objective and contents of a permanent audit file and a current audit file.

However, many candidates have written the difference in either objective or the contents and as a result they have not obtained the full marks.

It is also noted that some students have written the meaning of the word itself and earned no marks.

eg.

- Permanent file contains permanent documents and current file contains current documents.
- Permanent file is the file that cannot be move/carry outside the company and the current file is the file that can be move/carry here and there outside the company.
- Permanent file includes the matters which are not changing and current file includes the matters which are changing frequently.

Performance: Fairly satisfactory

(ii) This part required to list four (04) documents that would generally kept in a Permanent file;

Most of the Candidates have listed the documents correctly and obtained full marks. However, some candidates obtained low marks as they have written incomplete answers such as;

- Copies of important agreements
- Copies of legal documents

Also it is noted that some Candidates have misunderstood the question and stated the documents which are kept in a Current Files such as;

- Sales ledger
- Management representation
- Audit working papers, Bank reconciliations, etc.

Accordingly no marks were earned by them.

Performance : Satisfactory

(b) In this part, Candidates were required to list two (02) matters that the auditor should consider in assessing the appropriateness of the professional valuer 's valuation as an audit evidence. Although answers are straight forward, many candidates have given highly irrelevant answers, such as follows;

- Check the valuer's professional qualifications.
- Independence and financial interest.
- Check the physical existence of the buildings and check the title deeds etc.

Performance: Fairly Satisfactory

(c) In this part, Candidates were required to state three (03) main areas that need to be given special attention in the preparation of the audit plan for a given scenario. Some Candidates have correctly stated the main areas and as a result obtained full marks allotted.

However, some Candidates have given incorrect answers /less important areas, such as;

- Checking the distance between stores and sales centers.
- Method of transporting, and whether by company vehicles or rented vehicles
- Whether space and area is sufficient to stock the goods
- The No. of staff in the sales centers etc.

And also some students have written general answers such as;

- Check Sales centers
- Check Stores
- Check Internal controls
- Business scale of the entity
- understanding of the entity,
- Nature of the entity,
- Nature, timing and extent of the audit procedures,
- Risk of the material misstatement,
- Knowledge of the entity.
- Business environment.

Performance: Fairly satisfactory

Question No. 04 (Marks Allotted 15)

(a) In this part of the question, Examiner expected the candidates to state examples of input controls that can be established as application controls in a Computerized Information System (CIS) environment. This is a theoretical question and many Candidates have stated the examples of input controls correctly and as a result obtained full marks allotted.

It is noted that some Candidates have mixed up Application controls with General controls. The following incorrect answers were noted.

- Access Controls.
- Establish Passwords.
- Allocate knowledgeable Employs to input the data.

Performance: Fairly satisfactory

- (b) In this part, Examiner tested the knowledge of the Candidate about audit evidence, whether the management written representation can be considered as a substitute for the unavailable supporting invoices for the cost of a machine.

Majority of the candidates have attempted this part. However, some candidates have answered correctly and obtained full marks.

The answer was consist of two parts; “Yes/No” and to justify the answer.

Few of the candidates were explained everything to justify both “Yes and No” for this part and said we can accept the Management Representation in some instances and also said we cannot accept the Management Representation in some other cases. Therefore no marks were given in this situation.

It was noted that if the question was asked for ‘can you agree with this ?, the answer should be “Yes” or “No”, only one answer should be given, but few candidates were failed to give that answer straightforwardly.

Some candidates have stated that management representation could be taken as a substitute for the unavailable invoices which is incorrect.

Performance: Fairly satisfactory

- (c) In this part, Examiner tested the knowledge of the candidate about audit sampling. Few candidates have given the correct answer and obtained full marks allotted. Majority of the candidates obtained low marks due to irrelevant answers, such as;

- This should be stated in the audit report. If the error is material give a disclaimer opinion and if the matter is not so material give a qualified opinion.
- To advice the management about the error and get a management representation to that effect.
- Check all the inventory items.
- Some have stated that this is a fraud and Auditor should take legal actions against the management.

- (d) In this part, Examiner expected the candidates to identify audit issues which are apparent from the debtor’s age analysis of a company. The candidates were expected to answer this part of the question using their practical knowledge

Few candidates have given the correct answers as expected by the examiner. They have identified the audit issues of debtors age analysis and emphasized their answers. However, reasons why special attention should be given for the identified issues are not up to expectation because of following weaknesses;

- Some have stated R.T. Samarasinghe’s balance should be checked, because he is the largest debtor. Very few candidates have mentioned about the related party transactions.

- Some candidates have given general answers such as;
 - Check the debtor's control A/C
 - Check the total of age analysis
 - Check the sales invoices pertaining to the debtors
 - Check the accuracy of opening & closing balances

Most of the candidates did not understand the purpose of analyzing debtors in the age analysis and the decisions taken thereon. For eg; long term outstanding debtor means the risk involving on the collection of debt and becoming doubtful debt. Candidates have mention the issue as long term outstanding, but they have failed to explain whether it becomes doubtful debt / company should provide for doubtful debts as the reason to the issue.

Performance: Fairly satisfactory

Question No. 05 (Marks Allotted 18)

(a) In this part of the question examiner has tested the knowledge of the Candidates about physical stock verification Candidates were required to list three (03) substantive procedures that could be performed before the stock taking and after the stock taking.

(i) Before stock taking

In this part, some candidates have misunderstood the stock taking as purchase of stock. As such they have written the procedures applicable to purchase of goods as follows:

- Approval for purchase of goods.
- Whether the goods received are in accordance with the invoice.
- Whether the stocks are properly stored in the stores.
- G.R.N & G.I.N are properly maintained.
- Checking of purchase invoices.

Some Candidates have written highly irrelevant answers as follows:

- Reconciliation of purchases & sales.
- Analysis of stock records.
- Collecting the information of quantity of the goods.

(ii) After stock taking

Followings are the common irrelevant answers written by the Candidates for this part,

- Physical verification of goods
- Procedures after receiving the goods from the supplier
- Check the goods with invoice
- Recording of goods in stock records

It is also noted that some Candidates did not have clear idea about the procedures to be carried out before, during and after the stock taking. As such they have mixed up all the procedures when producing the answer.

Performance: Fairly satisfactory

- (b) (i) In this part of the question, candidates were required to state two (02) purposes of analytical procedures. Only few Candidates have stated the correct purposes and majority of the Candidates have stated highly irrelevant answers.

Due to the following irrelevant answers, majority of the candidates obtained low marks or no marks at all:

- To assess the level of activities
- It is a time saving procedure
- Easier than substantive procedure
- To check the accuracy of accounting
- To check physical accuracy
- To improve the Internal Controls
- To prevent fraud and errors
- To check the appropriateness of the internal controls
- To confirm the going concern of the entity

Performance: Not satisfactory

- (ii) In this part candidates were required to state an analytical procedure that could be used when auditing the interest expense on a loan.

For this part also, only few Candidates have stated the relevant analytical procedures. Instead of analytical procedures, majority of the Candidates have stated substantive procedures. Some Candidates do not have any idea about analytical procedures.

Due to following answers, Candidates obtained low marks or no marks at all

- Get the Bank Confirmation.
- Review agreements.
- Check Bank Records/Statements.
- Check financial statements.
- Collect loan details.
- Whether the loan amount is reasonable.
- Obtained records from Creditors.

Performance: Not satisfactory

- (c) (i) In this part, Candidates were required to state a substantive procedure that should be performed in obtaining audit evidence for existence of computers.

Majority of the Candidates have misunderstood the word existence as how long the computers will exist and written the answers accordingly.

Most of the answers are highly irrelevant and only some Candidates have stated the correct answers.

Due to following answers, some of Candidates did not obtain marks for this question:

- To find out useful life time.
- Check the Guarantee Card given by the supplier.
- Computer Hardware.
- To assess the actual working hours of the Computers.
- Some Candidates had discussed about software and hardware of a Computer.
- Guarantee period assured by the supplier.
- Obtained the services of an expert to assess the life time of the Computers.

Performance: Fairly satisfactory

- (ii) In this part, Candidates were required to state a substantive procedure that should be performed in obtaining audit evidence for accuracy of credit sales.

Some of the Candidates have stated the procedures to check the Debtor Balances instead of Credit Sales.

Due to following answers, some Candidates obtained low marks or no marks at all:

- Check the original documents relating to Credit Sales.
- Calling confirmation from Debtors.
- Check Debtors Age Analysis.

Performance: Fairly satisfactory

- (iii) In this part, Candidates were required to state a substantive procedure that should be performed in obtaining audit evidence for valuation of Investment in shares.

Some Candidates have stated the correct answer and obtained full marks allotted. However, many candidates obtained low marks or no marks at all due to following irrelevant answers

- Earning of a share
- Approval for investment
- Arithmetical accuracy
- Use analytical procedures to value shares
- Confirmation from the invested company
- Compare with other entities
- Confirmation from shareholders
- Attending the annual general meeting the invested company

Performance: Not satisfactory

Question No. 06 (Marks Allotted 18)

This is an easy question where theory knowledge of the candidates was tested by the examiner.

- (a) (i) In this part Examiner tested, the basic elements of an auditor's report ie. To whom should the Auditor's report be addressed to.

Most of the candidates were given the correct answer and earned the marks allocated.

Some candidates have given the following irrelevant answers showing that they are not familiar with the auditor's report,

- Those charged with Governance
- Stakeholders
- Client
- Employees
- C.G.I.R
- Auditor General
- Management of the Audit Firm
- Registrar of Companies
- Audit Manager
- Chief partner of the Audit Firm

Performance : Fairly satisfactory

- (a) (ii) In this part Examiner tested, the basic elements of an auditor's report ie. to state two (02) important matters that should be stated in the scope paragraph.

Only few candidates were familiar with content of Scope Paragraph. Following irrelevant answers were noted.

- Auditor's responsibility
- Responsibilities of the client
- Management responsibility
- Code of Ethics
- Areas of attention
- Company Act requirement
- Auditors opinion

Some Candidates have stated the content of the Engagement letter, instead contents of the Scope Paragraph

Performance: Not satisfactory

(b) In this part, Candidates were required to state two (02) audit procedures when there is a doubt about going concern. Large number of Candidates had no idea about the going concern issue and the audit procedures and produced irrelevant answers such as,

- Understanding the Current Ratio
- Advice the company to winding up
- Whether adequate funds are available to pay the loan
- Advice the company to settle loans
- Examination of the loan agreement
- Discuss with the bank to get relief.
- Obtaining confirmation from the bank
- Examination of financial and operating conditions
- Some Candidates had explained going concern concept rather than audit procedures.
- Disclose in the audit report.
- Look in to Working Capital.

Performance: Fairly satisfactory

(c) In this part, Candidates were required to state two (02) audit procedures to be performed to ascertain subsequent events are identified. Although this is a straightforward question, some candidates have written highly irrelevant answers such as follows:

- Attend meeting held by the Company.
- Disclose in the audit report.
- Evaluation of Internal auditors work.
- Review of previous financial statements.
- Check the asset.

Performance: Fairly satisfactory

(d) In this part, Candidates were required to list two (02) rights of the auditor as per the Companies Act No.07 of 2007

Some Candidates had answered based on their general knowledge on powers of the auditor. Most of the Candidates have given a list of general points including some relevant points.

Although the question requires stating the powers of the auditor, in terms of Companies Act, some Candidates came up with the powers of the Auditor General such as,

- Access to property and stores.
- Report to Parliament.
- Right to summon any person for examination.
- Report to COPE.
- Right to express an opinion.
- Right to audit any time.

Few candidates have given the below mentioned irrelevant answers:

- Resign from the audit.
- Give audit opinion as appropriate.
- To take audit fees.
- Advise to Management.
- Reveal fraud and error.

Performance: Fairly satisfactory

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