

## Examiner's Report

FINAL EXAMINATION - JULY 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 19)

This question comprises on the theoretical knowledge of the candidates. Almost all the candidates had answered to this question, and few had earned the full marks and most of 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 'Audit' and 'Investigation'

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

However some instances were found where candidates have not mentioned the important features of an audit; Eg: forming an opinion.

**Performance: Satisfactory**

- (b) The examiner expects to state four enterprises which are considered as SBE.

This is a straight forward and easy question of which the candidates can earn the full marks allocated. Few candidates have earned the full marks allocated for this part by giving the correct answer.

But significant numbers of candidates were not given the correct answer for this part and had failed to understand what SBE is.

For eg:

- Large numbers of students have identified Government Institutes as SBEs and have written the following answer.
  - Government Department
  - State Corporations
  - Statutory Boards etc.

- Some candidates have mentioned names of organizations (Government/semi Government) as SBE as follows.
  - Ceylon Electricity Board
  - Central Bank of Sri Lanka
  - Security Exchange Commission of Sri Lanka
  - ICASL / AAT/ SLAASMB
  - Sri Lanka Insurance Board
  
- Some candidates have mentioned entities as follows.
  - Peoples' Bank
  - Sampath Bank
  - Uniliever
  - Maliban, etc.

**Performance: Not Satisfactory**

- (c) Here the examiner aimed to test the knowledge of the candidates on the activities carried out by an Internal Auditor.

Candidates have averagely showed the knowledge on this are. Some candidates have given the answers as given below which do not earn any marks for this part.

Examples for candidates' answers are;

- Preparation of financial statements and forming an opinion on the truth and fairness of the financial statements.
- Perform internal audits as per required by the management
- Give information required by the external auditor
- Some candidates have mentioned primary and secondary objectives of an audit as the activities of an internal auditor.
- Some candidates have mentioned inherent limitations of an audit as the answer for this part.

**Performance: Fairly Satisfactory**

- (d) The examiner has tested the knowledge of the candidates on the general principles governing the audit of financial statements.

Most of the candidates have failed to answer for this part of the question successfully and completely.

Most of the candidates have explained individual ethical principles applicable to audit of financial statements which led to lose marks.

**Performance: Not Satisfactory**

- (e) 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 is required to explain the **“responsibility of a member with regard to client’s money entrusted to him”**

Most of the candidates have not been able to write the correct answer to earn marks. This reflects the poor knowledge of the candidates on code of ethics.

**Performance: Not Satisfactory**

## **Question No. 02** - (Marks Allotted 11)

The overall performance for this question is very low. The examiner has tested on the “overall audit strategy, materiality etc. But the candidates were not given sufficient answers to give marks to this question.

- (a) Here the examiner tested the term “Overall Audit Strategy”.

Majority of the candidates had not given the correct answer for this part of the question to earn the marks allocated.

They have given the irrelevant answers such as; planning of the audit of Group companies or the client having different business/office of different places etc.

**Performance: Not satisfactory**

- (b) The examiner is required to explain the relationship between ‘materiality and audit risk.’

Most of the candidates have just described the ‘materiality’ and ‘audit risk’ separately. But not explained the relationship between the above two which is having a **negative relationship**.

Further, some candidates explained that there is a Positive relationship between materiality and audit risk, hence no marks was earned for this part.

**Performance: Not satisfactory**

- (c) Here the examiner tested the knowledge of the candidates in applying theoretical knowledge by giving entity name and saying that a new audit firm has been appointed as the auditor by the entity. The examiner had request to state two procedures that candidate should perform in the above situation to understand the entity environment and its internal controls.

Most of the candidates have given the answer saying that;

- Discuss with previous auditor
- Refer the working paper of previous auditor.

It seems that the candidate had not understood the question properly.

Few candidates have given the correct answer for this part to earn marks.

**Performance: Not satisfactory**

(d) The examiner has tested on the area of the fraud of an entity by this part of the question. Here the candidates were requested to give three matters which should be included in the management representation in respect of fraud.

Majority of the candidates have not given the correct answer for this part. Some candidates have given the answer that the fraud has to be identified / found by the auditor etc.

**Performance: Not satisfactory**

### **Question No. 03** - (Marks Allotted 16)

Overall marks earned for this question is more than 50% of the marks allocated by most of the candidates.

This is a question comprises by a practical question on finding weaknesses in internal control in a given scenario, of which the candidates had learned the full marks allocated.

(a) This question was asked to state the types of audit procedures used to obtain audit evidence.

Most of the candidates had given the correct answer and earned the full marks allocated for this part.

**Performance: Satisfactory**

(b) The examiner is required to give two examples of audit evidence obtained from independence source.

This part of the question has been answered by most of the candidates and had earned the full marks allocated. But few candidates had stated as “Debtors statements” “Bank statement”.

**Performance: Satisfactory**

(c) The examiner has asked to state four factors to be considered by an auditor in determining the form and content of audit working papers.

Most of the candidates have failed to give the correct answer for this part of the question and they had given irrelevant answers as follows:

- Audit procedure carried out by the auditor
- Materiality level required to give reasonable assurance.

**Performance: Poor**

(d) This is a practical question given by the examiner to identify the knowledge of the candidates to find the weaknesses of an entity.

Most of the candidates had given the answer and had earned the marks allocated for this part of the question.

**Performance: Satisfactory**

**Question No. 04** - (Marks Allotted 18)

This question was tested on the theoretical knowledge on IT and the practical knowledge of the candidates, and other theory knowledge. The candidates' performance on this question is very poor, especially in the IT area tested.

- (a) This question is to test the candidates' knowledge on the matter that should be considered by the auditor when using CAATs

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

**Performance: Poor**

- (b) This part was tested on the general controls in CIS environment.

- (i) Candidates were required to explain the purpose of introducing general controls in CIS environment. Most of the candidates were not able to give the correct answer for this part.

Some candidates have written the answer as;

- Division of controls
- User manual

- (ii) Here the candidates were requested to list three types of general controls.

Most of the candidates were failed to give the correct answer as they have not understood the question.

Some candidates have written the answer as;

- Input controls/ process controls/ output controls
- Internal control/process controls
- Controls in/out of computers.

**Performance: Poor**

- (c) Here the examiner was tested the knowledge of the candidates on matters to be considered by an external auditor in evaluating the adequacy of work performed by the internal auditor.

The performance of the candidates was poor in this part of the question. They have not understood the question properly.

Some poor answers were given such as; knowledge, experience, expertise of the internal auditor etc. which could not give the full marks allocated for this part.

**Performance: Fairly Satisfactory**

- (d) Candidates were asked to explain three audit procedures to be performed by an auditor when prior audit periods financial statements were done by another auditor.

Most of the candidates had given poor answers and had not earned marks for this part. Some of the answers given are;

- Discuss with the management / workers
- Refer company documents

**Performance: Fairly Satisfactory**

- (e) The examiner has tested the knowledge of the candidates on the factors to be considered by an auditor in determining the need to use the work of an expert.

Few candidates has given the answer for this part, but most of the candidates were misunderstood the question and given very poor and irrelevant answers.

**Performance: Fairly Satisfactory**

**Question No. 05** - (Marks Allotted 20)

This question comprises the practical knowledge tested on substantive procedures / asset verification / test of controls and also the identification of audit issues on stock verification.

- (a) The candidates are requested to explain the circumstances in which auditor performs test of controls rather than relying on substantive procedures.

Most of the candidates had given the answer and earn marks for this part of the question.

**Performance: Fairly Satisfactory**

- (b) The candidates were asked to state the audit procedure that should be performed, in verifying Motor Vehicles to obtain audit evidence in the given assertions. Some candidates did not understand audit procedure relevant for each assertion.

**Performance: Fairly satisfactory**

- (c) In this question, the examiner tested the candidates' knowledge on audit procedure as follows:

(i) **Test of controls in verifying Trade Receivables** - Some candidates have given the answer on the substantive procedure rather than test of controls, of which no marks were given. Few candidates had given the answer correctly and earn marks.

(ii) **Substantive procedure in respect of Credit Sale** - some candidates have given the correct answer and earned marks allocated.

**Performance: Fairly satisfactory**

- (d) This is the practical question given by the examiner. From a given scenario of a company in verification of stock the candidates were asked to identify the issues in the stock verification. Most of the candidates were given the answer and earned the marks allocated for this part. Therefore some candidates had failed to mention about writing off of chocolates stock which had been passed the expiry date and computers should be categorized as fixed assets not trading stocks.

**Performance: Satisfactory**

**Question No. 06** - (Marks Allotted 16)

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

- (a) From this part the candidates need to state two audit procedures that the auditor should perform when he detects a non compliance with laws and regulations applicable for that entity.

Most of the candidates had given the answer for this part.

Some candidates had given the answer as follows which were relevant;

- Report to legal entities such as ICASL, AATSL, Inland Revenue Department, Auditor General Department
- Withdraw from audit

**Performance: Satisfactory**

- (b) This part of the question has tested the knowledge of the two types of modified audit opinions that the auditor could consider in a given scenario

Some candidates have mentioned all types of audit opinions, and some others have just mentioned Adverse Opinion / Qualified Opinion. They did not explain those opinions to get full marks.

**Performance: Fairly Satisfactory**

- (c) From this part of the question the examiner asked to explain how the appointment of the first auditor of a company should take place as per the Companies Act.

Most of the candidates had given the correct answer and earned marks allocated for this part.

Few candidates have mentioned following answers of which no marks were given;

- Auditor General
- ICASL
- The president
- Company management
- Some have given the qualifications of the auditor.

**Performance: Satisfactory**

- (d) From this part of the question the examiner asked to state four financial events or conditions that may cast significant doubts about the going concern assumption of an entity.

Most of the candidates had given the correct answer for this part and earned the full marks allocated. But some candidates have written operating events instead of financial events and did not get marks.

**Performance: Satisfactory**