

STRICTLY CONFIDENTIAL

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

DECEMBER 2014 EXAMINATIONS

ACCOUNTING TECHNICIAN PROGRAMME

PAPER TC7: AUDITING

EXAMINER'S REPORT

GENERAL COMMENTS

The examination was fair as it covered a wide range of topics from the syllabus. While some questions required recall of facts/knowledge learnt in class, the bulk of the marks were to be obtained from application of accounting knowledge in the audit process. The ability to apply that knowledge made a difference between the candidates who passed the examination and those that failed.

The performance was generally poorer than that achieved in the previous session. Some candidates performed badly because they had very poor background knowledge of the basics of auditing. They showed lack of understanding of such terms as “audit risk” or “true and fair view”, with regard to financial statements. Some missed the questions completely and lost direction by giving irrelevant answers, while others did not obtain pass marks not because they were entirely ignorant of the question requirements, but because they failed to communicate their ideas properly to be sensible enough to the examiner – poor language skills. Few well prepared candidates scored high marks, while many demonstrated that they were not well prepared or lacked adequate knowledge of the subject matter in addition to poor presentation and failure to fully understand the question requirements.

In some questions, it was not necessarily indicated as to how many points to provide to earn the allocated marks. However, clever candidates were able to deduce from the wording of the questions and the background knowledge of the issues as to how much to write. The number of marks allocated to a question should also give an indication as to how much one should write.

As usual, some candidates wasted so much time in their early attempts, by giving unnecessarily long backgrounds to questions, including repeating the questions, giving more items than necessary, even where requirements had clearly indicated the number, only to show signs of panic towards the end by simply listing ambiguous points. This led them to scoring higher marks in their earlier attempts and lower in the latter attempts.

In spite of all the weaknesses mentioned above, some candidates were adequately prepared for the examination, as such they scored very good marks.

COMMENTS ON INDIVIDUAL QUESTIONS

QUESTION 1

Question 1 was on audit in computerized accounting systems and was compulsory.

Part (a) was generally not well answered as most candidates failed to state the problems associated with the use of interrogation program in auditing.

In part (b), some candidates demonstrated lack of knowledge of what an audit trail is, more so to demonstrate it in the credit purchase scenario, and to give reasons why there was often loss of audit trail in most computerized accounting systems in part (c).

Most candidates know how a test data pack is operated in auditing. However a few were not elaborate enough to earn the required marks in part (d).

In part (d) candidates demonstrated lack of knowledge of the security threats to standing data in the DBMS. They simply mentioned or listed: use of passwords, locking doors to computer rooms etc.

Computer Aided Auditing Techniques are used in many organizations nowadays. It is, therefore, imperative that candidates are well versed in this area to show that they are ready for practical work in industry.

QUESTION 2

This was one of the most popular among the questions which were optional, perhaps because it required the candidates to merely recall what the Companies Act and IFAC code of ethics stipulated and not necessarily applying the knowledge to practical scenarios.

Candidates did not have much problems with parts (a) and (b) where they were required to state provisions of the Companies Act. However, only a few candidates managed to score marks on part (c) which required them to state the reasons why reasonable assurance is provided in statutory audits and not absolute assurance. Most of the candidates, in fact, wrongly interpreted reasonable assurance as being a higher level assurance than absolute assurance and ended up making statements that showed that reasonable assurance was advantageous to a client.

Answers to part (c) showed that candidates at this level were not familiar with the concept of assurance.

The question on confidentiality and conflict of interest was fairly well answered although weaknesses were noticed in explaining the concept of conflict of interest.

Generally, the candidates' performance was reasonable.

QUESTION 3

The question was mostly on audit risk, experts, internal controls and reporting.

In part (a) a few candidates were unable to properly elaborate and explain the meaning of "audit risk" and its components. In part (b) candidates explained what they understood by "expert" in the course of an audit but repeated factors to consider when placing reliance on the experts work such as: competence, qualifications, experience, background, past work. They looked at them as different factors when, in fact, they were the same.

In part (c), some candidates mistook the letter of internal controls and probably engagement letter or management representations as one and the same thing. In part (d) most candidates did not understand the difference between a "disclaimer of opinion" and "an emphasis of a matter" with respect to audit reporting. As a result, very few provided a correct definition of a "qualified audit report".

QUESTION 4

This question was one of the least popular and was poorly answered. In part (a), candidates were unable to properly explain adjusting events as classified under IAS 10. In (b) the candidates failed to explain their accounting treatment and the auditor's responsibility. In (c) the candidates were expected to explain the audit procedures to be carried in relation to the adjusting events.

In part (d) candidates failed to demonstrate knowledge of the contents or matters included in a management letter of representations. The performance in this question was dismal.

QUESTION 5

The question was on the concept of going concern of a company. Part (a) which asked for a definition of the term going concern, was generally well answered, although some answers were not adequate to earn full marks. This part of the question also required the candidates to state the responsibilities of management and those of the auditor. Part (b), candidates failed to assess the company's ability to continue its operation. Instead, they gave general indications of a company facing problems rather than assessing the particular case given in the question. In part (c) they gave general procedures relating to cash in hand rather than forecast cash flows.

In part (d), candidates failed to demonstrate their knowledge of assurance principles which classify assurance services in three general categories (absolute, reasonable and low/negative), with examination of forecasts cash flows falling in the negative assurance category. However, most candidates were able to explain how analytical procedures may be used to assess the going concern status of a company in part (e).

QUESTION 6

The question in part (a) required the candidates to state the effectiveness of control objectives, control procedures and audit tests over the purchases and payables system. A few candidates only responded to the first two requirements. In (b) they only gave out a single statement (the auditor should carry out substantive tests).

Part (c) candidates were able to state that something was wrong with the current practice but were unable to explain the possible implications and make appropriate recommendations to management.

QUESTION 7

This was the least popular question. In part (a) a good number of candidates were unable to define terms “contingent liabilities” and “provisions”. In part (b) they failed to give suitable examples of situations that give rise to contingent liabilities. Candidates demonstrated little knowledge of IAS 37. This showed that the candidates have not mastered fundamental accounting concepts. This was also observed in question 5 on going concern. Because of this, parts (c) and (d) were also poorly answered.

Despite being one of the basic accounting principles, candidates were not able to explain substance over form, let alone apply it in part (e)(i) and (ii).

CONCLUSION

Generally, the candidates’ performance was unsatisfactory due to the following factors among others: lack of knowledge and understanding of the key areas of Auditing, failure to address the requirements of a question, poor examination technique, and inadequate preparation/failure to cover the syllabus before attempting the examination. This often leads students to guessing.

RECOMMENDATION

- (1) Candidates should be reminded of the importance of following instructions.
- (2) Where the examiner has not specified the number of items to be given, they should be guided by the marks allocated to that part of the question and their background knowledge of the subject matter.

- (3) They should note that when they attempt more questions than specified or give more points to a question (or part of a question) than specified by the examiner, only the first specified number will be marked.
- (4) Although candidates are free to start with any question, their work should be methodical. Spreading parts of questions throughout the paper is improper. It is better to skip spaces for parts of the question for which they are not so sure of answering yet until they return to them later, subject to time availability.
- (5) Candidates are required to comply with instructions requiring them to start an answer to each question on a new page. This is consistent with the mark recording system. Writing different parts of more than one question makes following and aggregating marks difficult and may lead to loss of marks.
- (6) Candidates may also encounter some questions which require practical application of accounting skills to properly answer them. To this effect, some figures may appear from time to time. The examiner recommends that candidates carry a calculator to the examination room, just in case they need it to assist in proper analysis of the given information to form conclusions. A typical example would be a question dealing with an analytical procedure, materiality and audit reporting.
- (7) Candidates should write in eligible handwriting. If an examiner can't read their handwriting, he/she will not award any marks.
- (8) Candidates should improve their language skills. In some cases, the language is so bad that the examiner is unable to tell head from tail.

