

STRICTLY CONFIDENTIAL

INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

JUNE 2014 EXAMINATIONS

ACCOUNTING TECHNICIAN PROGRAMME

PAPER TC7: AUDITING

EXAMINER'S REPORT

GENERAL COMMENTS

The paper was fair and covered the syllabus adequately. The questions requiring recall and comprehension level answers were well blended.

In this diet performance was generally better than the previous session. Some candidates did badly because they had very poor background knowledge or were so unprepared that they could not even define basic audit terms, such as, auditor's professional independence or audit risk with regard to financial statements. Some misunderstood the questions completely thereby giving irrelevant answers, while others did not obtain adequate marks because they failed to communicate their ideas clearly. Those that failed to earn good marks were either due to poor presentation or language or failure to fully understand the question requirements.

As usual, some candidates wasted so much time by giving unnecessarily long background to the question including repeating the questions, only to show signs of panic towards the end by simply listing ambiguous points.

COMMENTS ON INDIVIDUAL QUESTIONS

QUESTION 1

Question 1 was on analytical procedures and audit conclusion. It was the least attempted, and the few that attempted it, did not score high marks because they demonstrated minimal or no basic understanding of analytical procedures.

In part (a) candidates failed to state the purposes of comparing and drawing trends to provide pointers to pertinent issues the auditor should focus on.

In part (b), candidates gave general and mostly irrelevant audit tests, instead of suggesting three specific audit test for each of the three issues revealed by analytical procedures (i.e. worsening of profitability despite increase in sales revenue, changes in gearing and worsening liquidity position).

In part (c), candidates had little or no idea of what should be considered when reviewing overall evidence before making an overall conclusion on financial statements, such as compliance with appropriate financial reporting framework, consistency in presentations, any apparent undue influence by management when reporting, required of auditors to describe both manual and computerized audit procedures used to obtain audit evidence over payables transactions and balances. In all this, some candidates did not understand it properly that they were giving generalized answers.

In part (d) candidates also had little idea on what should be done at the audit conclusion such as, aggregation of all uncorrected misstatements and evaluation of their overall impact on financial statements, preparation of audit completion checklist.

QUESTION 2

In part (a) they were given a cash collection scenario, candidates were required to firstly suggest audit tests over cash and bank balances in part (a), and completeness of sales or collections for the period under review in part (b). The question was attempted by a number of candidates most of whom scored good mark, and showing complete knowledge of the subject. Those who did not do well had problems with presentation of their ideas. For example, some simply listed brief phrases such as, segregation of duties, authorization, reconciliations etc, which do not make sense, while others were simply asking questions such as “what are the measures put in place to protect money?” etc.

In part (b) candidates were suggesting general audit tests related to an entity selling physical goods and some of which may be sold on credit terms resulting into debtors accounts, forgetting that Chikuluti Stadium obtained its income through gate collection from spectators, where issues of debtors or bad debts are unlikely to arise. Some candidate were also simply restating controls that should be available rather tests to such controls and records themselves. Proper tests could include: *check all tickets sold by following the numbering sequence in the folios or duplicates from all the three ticket offices and cast their totals according to their prices.....*

QUESTION 3

The question was on circularization of receivables (debtors). The table given in the scenario was for illustration and candidates’ appreciation of receivables age analysis only, not requiring them to do any calculations. This was another popular question well done in some parts and poorly in others.

Part (a) was poorly done by many candidates because they were only able to give one or two reasons for carrying out a circularization, which could not earn them any mark allocated.

Part (b) was generally well done, although some candidates did not respond to the last part of the requirement (to state whether both positive and negative circularization can be done in the same audit), while others stated that they could not.

In part (c) many candidates were able to discuss all possible course of action that should be taken should management refuse to allow an auditor to carry out a circularization (such as, discussion with management, carrying out alternative tests) but others rushed to suggest auditors resignation in such circumstances.

Part (d) was also generally well done as most candidates stated possible causes of differences such as errors on either part, fraud, items in transit, cut-off problems and what the auditor should do about them.

Part (e) was the most poorly done as candidates did not grasp from the table the significance of certain account balances such as negative balances (which are unusual), balances of individual accounts ranging from K50,000 – K100,000 and above (because they are individually significant), or accounts which are two month old and above (because they have overstayed and raise a possibility of becoming irrecoverable) etc.

QUESTION 4

This question was about the client's computerized systems and the audit process. It was not that popular and was also poorly answered.

In part (a) candidates could not come up with key differences that could be brought about by the introduction of a computerized system to the client's recording and reporting and, subsequently, the audit. Key issues, such as less paperwork and hence the possible loss of audit trail, were missing in most answers. Instead the less important issues such as, information overload, over-auditing, destruction of data by hackers or viruses were common amongst the answers

In part (b) most candidates knew what test data and audit software are, but did not explain well enough to earn the required marks.

In part (c) most candidates did not know what a real-time processing system does (that is, prompt or instant processing of data as it is received). Some of them suggested that it is part of the audit software used by an auditor to obtain evidence from the client's computerized system.

In part (d), again most candidates knew that computerized systems require additional controls, but did not know that they are in two categories (general controls and application controls), and were giving controls such as, physical controls, locking doors, use of passwords - some of which are the examples of the two categories.

QUESTION 5

The question was mainly on audit evidence and assurance engagements. It was a popular question but not well answered except in part (d) on independence.

In part (a), most candidates knew the key methods employed by an auditor to obtain evidence, but failed to articulate them to give appropriate examples to earn the full marks required. Some included sampling as a technique used to obtain evidence

Very few candidates seem to have ever learnt about assurance engagement therefore most of them skipped part (b) or gave completely unrelated answers. Candidates had therefore problems in tackling the follow-up requirement in part (c), to state elements of an assurance engagement and give examples of assurance and non-assurance engagements, respectively.

In part (d) most candidates were able to define auditor's independence, but not articulate how offering of other services, in addition to an audit, could affect the auditor's independence, by simply listing threats to auditor's independence.

QUESTION 6

The question was on internal audits and external audit. It was amongst the popular questions.

In part (a) most candidates defined an internal audit but some indicated in the objective of internal audit as, to prepare financial statements or to assist the external auditor in his duties, instead of their primary responsibility or organisational risk management through appraisal of internal control systems, amongst others.

In part (b) on similarities, some candidates indicated that both internal and external auditors are responsible to ensure that financial statements show a true and fair view, while on differences most candidates concentrated on very minor differences such as, fees for an external auditor versus salaries for internal auditors instead of more fundamental differences such as, qualification requirements, independence status requirement, scope of work and who each group is primarily responsible to.

In part (c) as in part (b) above, candidates were concentrating on weaker factors such as, internal controls effectiveness as a basis of the external reliance on the internal auditor's work instead of the fundamental issues such as, the internal auditors' organizational status and level of independence, professional competence or qualifications and quality of their work etc.

In part (d) candidates were able to appreciate that refusing to provide an external auditor with information requested is contravening his right to information guaranteed in the Companies Act, and constitutes limitation of audit scope. However, either they did not suggest any course of action to take or were suggesting either resignation of the

external auditor or urging management to dismiss the internal auditors, instead of more practical approaches such as, discussion with management, carrying out alternative audit procedures or qualifying the audit report on the basis of limitation of scope if such information was material.

QUESTION 7

This question was on professional judgment and where it is applied in the course of an audit. It was the most attempted question and candidates performed well.

In part (a) some candidates had problems in articulating what they understand by professional judgment, while in part (b) candidates defined audit risk, but could not mention or explain the audit risk components, and could not state how the auditor could reduce audit risk.

In part (c) some candidates understood audit sampling as an audit test itself, rather than a process where the auditor selects fewer items out of the whole population, on which he applies audit tests, whose findings will represent the whole population. Most candidates were however, able to state methods used to select a sample.

Some candidates could not explain sampling risk in part (d) such as simply stating that sampling risk is the danger the auditor may encounter while sampling. In the second part, most candidates misunderstood the question by simply stating that audit risk may arise in inventory, petty cash etc, instead of stating where there is possibility of concealed fraud, or where there are ineffective controls, or due to inappropriate audit procedures including sampling risk itself.

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CONCLUSION

Candidates should be reminded of the importance of following instructions and must appreciate the fact that 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. They should also be aware that where they attempt more question 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. Although candidates are free to start with any question, their work should be methodical, ie. 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.

Candidates may also encounter some questions which require practical application of accounting skills to properly articulate them. To this effect, some figurative presentations may appear from time to time. The examiner recommends candidates to 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 analytical procedures.