

STRICTLY CONFIDENTIAL

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

JUNE 2016 EXAMINATIONS

ACCOUNTING TECHNICIAN PROGRAMME

PAPER TC7: AUDITING

EXAMINER'S REPORT

GENERAL COMMENTS

The examination was fair as it sampled the range of topics in the syllabus. While some questions required mere knowledge (recall) and comprehension, others required application of accounting knowledge in the audit process.

The candidates' performance remains unsatisfactory although it has improved slightly compared to that of the previous session. Some candidates scored low marks because they gave wrong answers, while others failed to communicate sensibly their ideas. Poor presentation, language skills and failure to fully understand the question requirements also contributed to high failure rate.

Some candidates did not observe instruction number 6 on the question paper and instruction number 3 on the answer script, not to answer two different questions on the same page.

Again, some candidates wasted time by giving unnecessary background information to questions, including repeating the questions, even where requirements had clearly indicated not to. This led them to losing marks

COMMENTS ON INDIVIDUAL QUESTIONS

QUESTION 1

The question was on the application of computerized accounting systems and the audit. Part (a) required the candidates to explain the effects of computerization of systems on both the client and the auditor's work. This was well answered by the candidates.

Part (b), required the candidates to explain audit software and test data. These were also well done.

However, in part (c) most candidates only gave authorization, segregation of duties, use of passwords, back-ups as some of the controls without elaboration.

Most candidates also failed to define data base management system (DBMS) in part (d) of the question.

QUESTION 2

The question centred on evolution of an audit over time where in part (a) some candidates failed to state why fraud detection is still relevant in a modern audit despite the shift in its attention to the truth and fairness of an entity's financial statements rather than fraud detection. Unfortunately, many candidates mentioned the effects of fraud on the organization.

The candidates were expected to state the following:

- that the primary responsibility to detect fraud rests with management.
- that an audit may carry out suitable audit tests to obtain evidence to support the conclusion drawn.
- that an audit is expected to design and carry out procedures with reasonable expectation of discovering material misstatements which would affect the accuracy of the financial statements, including fraud.

In (b) most candidates were able to give benefits derived by an entity from having an independent audit and in (c) they subsequently stated the possible limitations of an audit (especially in smaller entities).

In part (d) they gave general threats of safeguards to independence of an auditor rather than state why the auditor should not only be independent in mind but should also appear to be independent. The need to be seen to be independent is important for an auditor to instill confidence in shareholders.

QUESTION 3

Parts (a) and (b) of the question required the candidates to explain the importance of screening Dyelatu, and what information would the firm be interested in. A number of candidates missed the phrase "newly established". In view of that, it is not possible to check previous financial statements or liaise with previous auditors.

In part (c) candidates answered well on directors duties with regard to a company's financial statements, but most of them had problems in giving key rights of an auditor (i.e. access to records and obtaining all necessary information and explanations) but rather implied rights such as right to resign etc.

QUESTION 4

The question was on ethical behavior where, in part (a), most candidates were unable to explain the key issues of integrity, professional behavior and professional skepticism.

In part (b) most candidates realized that directors/management were manipulating financial statements, but failed to show how serious these manipulations were, such as turning a loss of K100,000 into a profit of K500,000, hence failed to recommend appropriate actions to be taken and the type of audit report to be issued, while also taking into consideration the present intimidatory environment.

QUESTION 5

Part (a) of the question required a comprehensive analysis of control objectives, control procedures and appropriate audit tests with regard to the sales system. Many candidates did not understand the requirements of the question. As a consequence, they did not recommend appropriate audit procedures over year-end sales and receivables balances.

In part (b), most candidates recognized the problem of stock-outs, and dispatching goods direct from the manufacturing plant, but failed to explain the implication of this problem and to offer any plausible recommendations.

QUESTION 6

Part (a) of the question was on audit planning. Candidates generally stated the reasons for audit planning in (i) and the information required for the purpose in (ii). They also explained audit risk but gave inadequate explanations for materiality.

In part (b) candidates showed total lack of knowledge of contingent liabilities, opening balances and subsequent events and their relevance to an audit of financial statements.

QUESTION 7

This question tested the candidates' understanding of the audit reporting concepts (output of the audit process – the auditor's report) by giving a number of previous points for their comments. Very few candidates attempted the question, from which it could be seen that they did not have a proper or complete grasp of the concept. According to ISA 701, an audit report can either be unmodified (a clean report) or modified (with reservations), and that if it is modified then it can be a qualified report (except for....), or adverse report or disclaimer of opinion or emphasis of matter report.

CONCLUSION

Candidates should be reminded of the importance of following instructions.

They should also be aware that where they attempt more questions than specified or give more points to a question (or part of a question) than specified, only the first specified number will be marked.

Although candidates are free to start with any question, their work should be methodical, i.e. spreading parts of questions throughout the answer booklet is not proper. It is better to skip spaces for parts of the question for which they are not sure of answering until they return to them later.

Candidates are required to comply with the instruction requiring them to write the answer for each question on a fresh page. This is consistent with the mark recording system. Writing two or more parts of different questions on the same page is not allowed.

It is recommended that candidates bring a calculator into the examination room, just in case they need it to use it analysing the given information to form conclusions. A typical example would be a question dealing with analytical procedures, materiality and audit reporting.

Candidates continue to struggle to apply what they learn in class to scenarios given in the examinations.

Candidates seem to be more comfortable with recall questions only they should also be able to have the skill of applying knowledge to different situations.

They should also cover the entire syllabus before they attempt the examination.

Candidates should learn to write legibly.

