

STRICTLY CONFIDENTIAL

INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

DECEMBER 2019 EXAMINATIONS

ACCOUNTING TECHNICIAN PROGRAMME

PAPER T3.1: AUDITING

EXAMINER'S REPORT

GENERAL COMMENTS

The examination was fair and it covered different topics with weightings according to specifications in the syllabus. Some questions required candidates to show knowledge and comprehension while others required application of audit and accounting concepts.

In general, the candidates performance has improved compared to previous sessions. Some candidates did not perform well because they lacked knowledge of the subject matter, some misunderstood the questions as such, and they gave irrelevant answers. Most candidates failed to communicate their answers in correct English. Some candidates failed to apply the theory they learnt in class to practical situations as required in the test items/questions.

Some candidates attempted more than the required five questions out of the seven. Others skipped question one which is compulsory. This could be due to lack of knowledge or failure to read and follow instructions.

COMMENTS ON INDIVIDUAL QUESTIONS:

Question 1

Question one is compulsory. Part (a) of the question required candidates to give five ways how financial information systems are enhanced through a computerized system. Most candidates failed to get maximum marks because of inadequate explanations. They simply listed phrases. They also failed to explain how the use of Information Technology (IT) by

an auditor can enhance the *reliability* of audit evidence in part (i). In part (c) the performance was poor as candidates could not identify which CAATs are suitable to obtain evidence with regard to sales, wages and carrying out analytical procedures.

Question 2

Part (a) of the question tested candidates' understanding of the role of various corporate governance instruments and legal institutions in the proper management of a company. Some candidates showed flawed understanding of the role of internal audit versus external audit and board of directors versus management of a company. Part (b) of the question centered on assurance and non-assurance engagements. Some candidates could not appropriately articulate the *level of assurance* offered by practitioners in different engagements, and more so that in some cases, *no assurance* was given in certain engagements such as compilation of tax returns for a client.

Question 3

Part (a) was generally well done although a few candidates gave brief phrases, which were inadequate for the marks allocated. Some candidates stated specific occurrences that could affect auditors' independence, such as financial interests in a client, receiving gifts etc. Part (b) was well done although a few candidates mentioned risk of material misstatements at auditor nomination level which was inappropriate. Part (c) was poorly done as most candidates could not properly articulate the ethical implications or suitability of approaches adopted by an audit firm to obtain additional clients. Some candidates ignored the ethical aspect and gave wrong answers like '*.... it is ethically acceptable to claim that you are the best, or advertise on WhatsApp social groups, or to undercut fees below market rates*'... The candidates lost marks for such responses.

Question 4

The question centered on auditors' liability in the course of their duties. In part (a) most candidates were able to explain the auditors' liability to companies they are engaged with, but demonstrated lack of knowledge of auditors' liability to third parties who may rely on auditors' work. This spilt over to the response to part (b) of the question which required a

practical demonstration of such liability of auditors of Kapilintiya plc to its lenders, and what should be done in the future to avoid such occurrences.

Question 5

Parts (a) and (b) were well done by candidates. They were on benefits of an audit and limitations of an audit report, and business risk versus audit risk respectively. Part (c) was poorly done as candidates failed to identify business risk factors in Ndirande Medical Stores, (ie, that there was *compliance risk* since prescription medicines could be sold against regulatory requirements, also that a significant part of its operations were funded from debt as indicated 45% gearing ratio – high *financial risk* and how to deal with these risks.

Question 6

Parts (a) and (b), were straight forward and were also generally well done. Most candidates had particular problems in attempting part (c) which required them to *identify* weaknesses in internal controls of Tasambira Private Schools, a hypothetical case, *explain their implications* and *give recommendations* on how they could improve. This was another application question where candidates displayed challenges to provide correct responses, and some candidates simply ignored the scenario.

Question 7

In part (a), some candidates demonstrated lack of understanding of different communication documents used between auditors and clients, such that for the definition of management representation, some gave the definition of an engagement letter or management letter of weaknesses. In part (b), most candidates did not understand the requirement to compare and contrast auditors' versus management *responsibilities* with regard to the *going concern status* of an entity, such that they gave general responsibilities such as preparation of financial statements versus reviewing them. Part (c) was also poorly done as they could not clearly analyse issues highlighted in the hypothetical cases to advise on the right *actions* to be taken and *types of reports to be issued* under each circumstance.

RECOMMENDATIONS

1. Candidates should be reminded of the importance of following instructions.
2. 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 by the examiner, only the first specified number will be marked.
3. Although candidates are free to start with any question, their work should be orderly 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.
4. Candidates are required to comply with instructions requiring them to start each answer to a question on a new page. This is consistent with the mark recording system. Writing different parts or more than one question on one page, makes following and aggregating marks difficult.
5. Candidates should be in a position to apply knowledge gained to practical questions.
6. Candidates should carry a calculator to the examination room, just in case they need it for the proper analysis of the given information to form conclusions. A typical example would be a question dealing with analytical procedures, materiality and audit reporting.
7. Lecturers should cover the syllabus adequately and deliver content in a manner that would enhance understanding in the students so that in turn the students are able to apply knowledge to new situations.

