
Examiner's Report

**Paper 8
Auditing**

General Comments

The overall performance in this session has substantially improved. The top scorers of each individual question gained 19 or even 20 marks, only question B6 had a lower top score of 16 marks.

Most of the failed candidates did not read the questions carefully. As a result, they could not obtain sufficient marks to obtain a pass.

Despite repeated reminders to candidates about their incorrect spelling of keywords, such as “*existence*”, “*accounting police*”, “*ture* and fair view” still occurred. Marks were not given for incorrect spelling of key words.

Section A – 20 Multiple Choice Questions

In this section, questions were set on general auditing concepts. In contrast to the overall performance, candidates showed weaker results in this section.

Section B – 6 Questions

On the whole, the performance in this section was average. Many candidates were not careful in reading the requirements of the questions and they wasted a lot of time in writing non-rewarding points.

Question B1

This question examined candidates’ knowledge of walk-through test and test of controls. This was the worst answered question. Candidates could not demonstrate that they had understood the audit process and many of them mixed up these two tests with substantive test.

Based on their answers to part (a), it was easy to glean the degree of their understanding of the audit process. Many candidates were not able to identify which step related to the walk-through test or test of controls. In part (b), candidates did not mention the number of samples taken and they failed to address how the auditor performed the tests. In part (c), candidates were confused among walk-through test, test of controls, and substantive test. They lost most of their marks in part (d). They were particularly weak in the walk-through test and did not know what to do if the test result did not match what the auditor had documented. Without performing test of controls, some of them jumped to the conclusion that the auditor could rely on the internal control system. With respect to the performance of test of controls where negative results occurred, many candidates did not consider identifying any alternative or compensating controls. Many of them immediately concluded that more substantive tests had to be performed. Some of them, however, were able to discuss whether the errors were isolated errors.

Question B2

This question examined candidates’ knowledge of general controls and application controls of an information system. The performance was not bad, over one-third of the candidates who attempted this one were able to pass it.

Candidates did not carefully read the requirements in part (a). They only described the internal control characteristics of the information systems, but they failed to comment on the related risks of the four areas listed out in the question. In part (b), many candidates could not identify the probable consequence if general controls of an information system were not effective. In part (c), some candidates gave specific examples of internal controls rather than the main types of application controls. Candidates performed quite well in parts (d) and (e), but some misspelled “simulation” as “stimulation”.

Question B3

This question examined candidates' knowledge of audit evidence. Although it attracted most of the candidates to attempt this question, the performance was quite disappointing. Most candidates lost marks from part (a) because they could not explain whether the evidence obtained was strong or weak.

In part (a), candidates did not think carefully what type of information would be obtained by the auditor from direct confirmation from a third party – it was just the quantity of inventory. It is recommended that they read the suggested answers carefully in this respect. Part (b) was poorly answered; many did not give the appropriate answers. Part (c) was straight-forward and many candidates gained all marks.

Question B4

This question examined candidates' knowledge of representation letter.

In part (a), some candidates mixed up representation letter with management letter or engagement letter. In part (b), most candidates were able to point out the difference in industry but many failed to point out the difference in periods. Many candidates focused on doing more audit tests when other audit evidence contradicted with the management representation, and hence the result of part (c) was unsatisfactory. In part (d), candidates failed to read the question carefully and did not address the corrections. Most of them were able to give five audit procedures in part (e), but some candidates completely lost track.

Question B5

This question examined candidates' knowledge of audit report.

Part (a) was related to 10 short questions which were well attempted by the candidates. In general, candidates were able to state the type of audit opinion in part (c), but they could not answer part (b) for what should be mentioned in the audit report with respect to an adverse opinion. In part (d), many candidates were confused with the date of completion of an audit and the date of signing of an audit report.

Question B6

This question examined candidates' knowledge of audit objectives and types of accounts. Candidates performed the best in this question. Nearly half of the candidates were able to pass it.

However, many candidates wasted time in copying the audit procedures. The better way is to present the answers in a tabular form, so that column (i) shows the reference number of the audit procedures, column (ii) the answer of part (a), and column (iii) the answer of part (b).

Among the 10 audit procedures, candidates were weak in items (g), (h) and (i). As guarantee might result in potential liability, it should have been disclosed as a contingent liability. Candidates mixed up capital expenditure with capital commitment. Some of them misunderstood that the test on subsequent selling price of finished goods was to test for accuracy, but its objective was to test for valuation.

[END OF EXAMINER'S REPORT]