

# **Examiner's Report**

**December 2018 Session**

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**Paper 8**

**Principles of Auditing and  
Management Information Systems**

## General Comments

Paper 8 examined candidates on the Principles of Auditing (“Auditing”) and Management Information Systems (“MIS”). The marks allocated to the questions on Auditing and MIS were in the ratio of 7:3. The paper was structured in such a way that candidates had to attempt MIS questions to obtain 30 marks out of a total of 100.

The overall performance in this examination improved as compared with the previous session.

In addition to studying the recommended study texts, candidates may refer to the HKIAAT website <http://www.hkiaat.org/index.php/services/index/199/> and read the articles to better understand each of the relevant topics. Another means of improving the techniques of answering questions is to study past examination papers and learn how to score higher marks.

## Section A – 20 Multiple-choice Questions

These questions were set to cover a wide range of topics on Auditing and MIS within the syllabus. A total of 14 questions were on Auditing and 6 questions were on MIS. The overall performance in this section had significantly improved with a higher percentage of candidates scoring ten marks or more.

Some of the common mistakes made by candidates are listed below.

- (1) An auditor has to apply Hong Kong Standards on Auditing in conducting an audit, no matter it is an audit of the head office or a branch, or it is a charged audit or an honorary audit, i.e. the same standard of quality of work has to be maintained. If the auditor intends to use the work conducted by internal auditors, he/she has to follow the procedures prescribed in the Hong Kong Standards on Auditing, i.e. specific procedures. However, the auditor does not need to apply Hong Kong Standards on Auditing to matters causing immaterial effects.
- (2) Candidates should note that the auditor has to assess on the client’s going concern status throughout the audit. When performing risk assessment procedures in the planning phase, the auditor shall consider whether any events or conditions would exist and cast significant doubt on the entity’s ability to continue as a going concern. During the evidence-gathering phase, the auditor shall remain alert for audit evidence of events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. In the completion and review phase, the auditor shall evaluate whether sufficient appropriate audit evidence has been obtained, and shall conclude on, the appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial statements. Finally, in the reporting phase, if the financial statements have been prepared using the going concern basis of accounting but, in the auditor’s judgement, management’s use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion.
- (3) Candidates did not understand the meaning of attribute sampling. It is a statistical sampling technique used to estimate the proportion of a population that possesses a specified characteristic.
- (4) A management information system provides detailed information on the entity’s operation and summary information on the performance of the entity. However, it does not provide the exact information needed to solve problems. As a result, Decision Support Systems (“DSS”) are developed to help decision makers confront ill-structured problems through direct interaction with data and analysis models. DSS give the decision maker access to these types of models but the intelligence, intuition and judgement of the decision maker are an integral part of the system.

## **Section B – 3 Compulsory Questions**

Candidates are reminded not to skip any topics and should thoroughly study all topics in the syllabus before taking the examination. In this section, candidates in general performed very well in Questions B1 and B2. However, their performance in Question B3 was poor.

### **Question B1**

This question examined candidates' knowledge of the audit engagement letter. Candidates' performance was good in this question.

In part (a), most candidates could state the three purposes of preparing an audit engagement letter.

In part (b), many candidates stated that fee is a main term of an audit engagement letter. Indeed, a standard audit engagement letter does not necessarily quote a fixed fee, as the basis of charging the audit fee depends on the skill and time spent by the auditor.

In part (c), many candidates did not know the reasons for an existing auditor to reissue the audit engagement letter.

### **Question B2**

This question examined candidates' knowledge of the audit of going concern and modified opinion. The overall performance was fairly good.

In part (a), it was surprising that many candidates were not able to give examples of financial conditions that may indicate a potential risk to a company's going concern.

The performance in part (b) was poor, as candidates could not clearly explain the circumstances leading to a modified opinion.

Candidates performed the best in part (c) and were able to state the three types of modified opinion. However, in part (d) many candidates did not know which type of modified opinion should be given to the inappropriate use of going concern as the basis of accounting in the preparation of financial statements.

### **Question B3**

This question was about the threats to an information system and those leading to the discontinuity of computer operations. The overall performance was a bit disappointing.

The performance in parts (a) and (b) was good, as candidates could explain the meaning of hacking, spamming, phishing, and pharming, and were able to list other threats to an information system.

However, in part (c), many candidates incorrectly listed access controls instead of control procedures for mitigating the threat of business disruption.

## **Section C – 3 Optional Questions**

In this section, most candidates chose to answer Question C3, and the number of attempts to Questions C1 and C2 were evenly spread. Candidates performed comparatively better in Question C2, but poorly in Question C1.

### **Question C1**

This question examined candidates' knowledge of internal controls, tests of controls, and characteristics of information required by strategic management. The candidates' performance was poor.

In parts (a) and (b), candidates were quite good at demonstrating their knowledge of components of internal control and inherent limitations to an internal control system. However, in parts (c) to (e), they could not explain clearly the reason for performing tests of controls, and the factors affecting the timing and extent of tests in tests of controls.

Candidates performed poorly in parts (f) and (g), they could not demonstrate their understanding of the characteristics of the information required by managers at the strategic level.

### **Question C2**

This question examined candidates' knowledge of risk assessment procedures, documentation of internal control systems, audit documentation, materiality, use of Internet, and artificial intelligence applications. Although the candidates' performance in this question was the best among the three questions, the overall performance was not satisfactory.

Some candidates did not read the questions carefully. For example, they did not make reference to stage (1) to stage (7) as given in the background information. They just memorised what they had seen in the textbook or past exam papers without utilising the given background information. This issue affected their performance in parts (a), (c), and (e).

In parts (a) and (b), candidates were familiar with risk assessment procedures.

In part (c), it was surprising that many candidates could not list the methods of documenting internal control systems.

In part (f), candidates did not know the circumstances that may lead to changes in the auditor's assessment of materiality.

In part (h), some candidates were not familiar with artificial intelligence applications and thus the answers given were not related to such applications.

### **Question C3**

This question examined candidates' knowledge of sampling and non-sampling risks, characteristics of audit evidence, selection of computer packages, and access controls. The candidates' performance was not satisfactory.

Candidates mixed up non-sampling risk in part (a) with sampling risk in part (e). As a result, the answers in parts (a) and (b) were not relevant.

Candidates did much better in parts (c), (d), (e), and (g). However, they did not read the question carefully in part (f), which asked for the approaches rather than the benefits of computer packages.

**[ END OF EXAMINER'S REPORT ]**