

# **Examiner's Report**

**June 2017 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 pass rate slightly improved in this examination session, but the overall result was unsatisfactory.

In addition to studying the recommended textbook, candidates can 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 good 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 six questions were on MIS. More than half of the candidates scored ten marks or more.

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

- (i) In assessing control risk, auditors usually perform tests of controls. Auditors obtain reasonable assurance that controls are in use and operating effectively, and the frequently used tests of control procedures are observation and reperformance.
- (ii) It is conventional to identify the internal control system as comprising the control environment and control procedures, and thus it is not a prerequisite for auditors to obtain a preliminary understanding of the prospective client’s control environment before accepting a new audit engagement. Indeed if a prospective client is changing auditors, it is necessary for the new auditor to obtain the prospective client’s consent to make inquiries of the predecessor auditor before accepting the audit engagement.
- (iii) In small to medium-sized firms, it is quite common for an individual staff member to carry out roles which are supposed to be segregated for two or more staff members to perform. Theoretically this may be an internal control weakness, but the establishment of an alternative control may be good enough to compensate for such weakness. This alternative control is a compensating control. A typical example of compensating control is to perform the bank account reconciliation function by someone other than the person receiving cash and depositing it to the bank.
- (iv) Internal auditors are not the subordinates of external auditors and should report their findings to the audit committee.

## 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 session, candidates in general performed poorly, particularly in Questions B2 and B3.

### Question B1

This question examined candidates’ knowledge of auditor’s liabilities, fraud and error. More than half of the candidates passed this question.

In parts (a) and (b), from the results it was quite easy to distinguish whether the candidates had studied the topic of auditor's liabilities. However, some candidates did not read the requirements carefully and gave similar answers in both parts.

In parts (c) and (d), most candidates could distinguish between fraud and error.

### **Question B2**

This question examined candidates' knowledge of risk assessment procedures and materiality. Less than half of the candidates secured a pass in this question.

In part (a), many candidates mentioned that risk assessment procedures were to assess risk. This was not enough to score full marks because they had not mentioned what type of risk. Auditors are concerned with risk of material misstatement in the financial statements.

In part (b), this question was quite simple but candidates failed to demonstrate their understanding of risk assessment procedures, and thus they were unable to give correct answers.

Candidates did not prepare for questions related to materiality and performed poorly in parts (c) and (d).

### **Question B3**

This question was about some terms commonly seen on the Internet. The performance was quite disappointing because less than half of the candidates passed this question.

Candidates' common problem was failing to read the requirements carefully. The question had two requirements: (i) define the item, and (ii) describe its use. Many answers only covered either (i) or (ii), but not both. For instance, candidates only stated the use of firewall, but they failed to state that it was a security system.

Many candidates misunderstood that encryption is a kind of password. It is indeed a code used for hiding the messages to prevent them from being read during transmission.

Candidates failed to demonstrate their understanding of digital signature and cookie.

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

In this section, most candidates chose to answer Question C2, while the numbers of attempts to Questions C1 and C3 were quite close. In general, the performance was poor in this section. The median score in Question C2 was the highest among all three questions in this section.

### **Question C1**

This question examined candidates' knowledge of audit committee, final stage of audit, representation letter, value of information and business intelligence systems. About half of the candidates attempted this question, but their overall performance was poor, with less than half of them getting the pass mark.

In part (a), many candidates were not able to provide five points to score all the marks.

In part (b), candidates did not know the audit procedures usually performed at the final stage of an audit.

In part (d), some candidates mixed up management representation letter with management letter.

In parts (e) and (f), candidates did not read the questions carefully and gave irrelevant answers.

## **Question C2**

This question examined candidates' knowledge of statistical sampling, applications of personal computer in an audit, nature of audit evidence, and e-commerce. Most of the candidates attempted this question but less than half of them obtained the pass mark.

From parts (a) to (c), it was evident that candidates were weak in statistical sampling.

Candidates performed well in parts (d) to (f). They could demonstrate their knowledge of applications of personal computer in an audit and also the nature of audit evidence.

In part (g), many candidates failed to note that the question was asking for the benefits to consumers rather than to the merchants.

In part (h), many candidates got the answers wrong for item (ii) B2C and item (iv) B2B.

## **Question C3**

This question examined candidates' knowledge of different types of audit tests, including tests of controls, substantive procedures, tests of details of balances, and analytical procedures. On the MIS front, the question examined candidates' knowledge of threats to (i) computer systems, and (ii) discontinuity of business. More than half of the candidates attempted this question, and less than half of them obtained the pass mark.

Some candidates could not distinguish the differences among various types of audit tests. Candidates are advised to read the article "Analytical Procedures – A Powerful Tool for Auditors" (<http://www.hkiaat.org/images/uploads/articles/Analytical.pdf>).

In part (g), many candidates did not read the requirements carefully and gave irrelevant answers.

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