

# **Examiner's Report**

**June 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 was about the same as in the previous session.

In addition to studying the recommended study text, 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 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 6 questions were on MIS. The overall performance in this section has 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) Apart from total revenue and total equity, profit before tax and net asset value are also used as a starting point in determining materiality for the financial statements as a whole.
- (2) A representative sample should possess the characteristics such that all items in the population are required to have an equal or known probability of being selected.
- (3) In a computerised accounting system, there are two types of controls: general controls and application controls. They can be distinguished from their objectives.
- (4) The replacement of a fixed asset is determined by managers at the tactical level, while the purchase of a fixed asset for attaining the long-term objectives is determined by managers at the strategic level.
- (5) Data mining uses the historical information to try to discover hidden relationships.

## 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 very well in Question B3. However, their performance in Question B2 was poor.

### Question B1

This question examined candidates’ knowledge of the objectives of accounting and auditing, directors’ responsibilities in relation to accounting, purposes of performing audit procedures, and auditing standards. Candidates’ performance was moderate in this question.

In part (a), many candidates did not know the objective of accounting. It should be about the presentation of financial information (not statements) to users of the financial (not audit) report.

In part (b), candidates did not read the requirements carefully. The question asked about the directors’ responsibilities in relation to “accounting”, but many candidates gave answers relating to auditors’ responsibilities, such as free from material misstatements, or true and fair view.

In part (d), it was insufficient to state that an auditor should comply with the standard issued by the Hong Kong Institute of Certified Public Accountants because this could not distinguish whether it is the accounting standards (Hong Kong Accounting Standards) or auditing standards (Hong Kong Standards on Auditing) being referred to.

### **Question B2**

This question examined candidates' knowledge of audit risk and materiality. The overall performance was poor. Candidates generally gained marks from part (a) only.

In part (b), candidates did not understand that auditors have to consider materiality and audit risk at different stages of the audit. At the planning stage, auditors identify and assess the risks of material misstatements. During the audit, auditors may have to consider performing further audit procedures after evaluating the materiality of errors found and audit risk. At the final stage, auditors evaluate the effect of uncorrected misstatements by comparing with the materiality levels set before they form their audit opinion.

In part (c), most candidates could not demonstrate an understanding of the circumstances leading to a revision of the materiality.

### **Question B3**

This question was about business activities conducted through the Internet. The performance was good. A number of candidates were able to apply some of the real-life examples in their answers.

Indeed candidates could relate all the business activities (from purchase and payment to sale and receipt) carried out manually in the past and translate them to the current e-commerce with the delivery of goods or services.

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

In this section, most candidates chose to answer Questions C1 and C2, while the number of attempts to Question C3 was relatively low. The poor results in Question C3 showed that candidates were not well prepared for computer auditing.

### **Question C1**

This question examined candidates' knowledge of inherent limitations on the effectiveness of internal controls, representation letter, lawsuits against auditors for negligence and their defence, and threats to an information system. The performance was average.

Candidates were quite good at demonstrating their knowledge of inherent limitations on the effectiveness of internal controls, lawsuits against auditors for negligence and their defence, and threats to information. However, in parts (c) and (d), candidates did not prepare well on the topic of representation letter.

### **Question C2**

This question examined candidates' knowledge of reliability of audit evidence, relying on management's expert, and management information system. The overall performance was below average.

In parts (a) and (b), candidates were familiar with the general rules about the reliability of audit evidence. However, they were weak in commenting on the reliability of audit procedures (i) to (v) as they were simply repeating the background facts rather than making comments.

In part (c), candidates were not familiar with the audit procedures to be performed before relying on the management's experts.

From parts (d) to (f), some candidates could not clearly define a management information system. As a result, they gave ambiguous answers about the advantages and disadvantages of the management information system.

### **Question C3**

This question examined candidates' knowledge of computer auditing, Computer-Assisted Auditing Techniques ("CAAT"), and outsourcing of IT function. The performance was poor.

From parts (a) to (d), candidates could not demonstrate their understanding of auditing around the computer and auditing through the computer.

From parts (e) to (g), many candidates were not familiar with test data and parallel simulation.

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