

Examiner's Report

December 2009 Session

Paper 8

**Principles of Auditing and
Management Information Systems**

General Comments

From the June 2009 session onwards, Paper 8 is set according to a new syllabus which comprises Principles of Auditing (“Auditing”) and Management Information Systems (“MIS”). The marks allocated between Auditing and MIS is in the ratio of 7:3. This paper is structured in a way that under any circumstance candidates have to attempt 30 marks of MIS questions. Despite a weighting of 30% of the total marks, candidates should not ignore MIS, as these 30 marks can play an important role in obtaining a pass. Comparing the new and old syllabuses for Paper 8, the new syllabus for Auditing does not require candidates to obtain knowledge of ethics and detailed audit procedures, candidates are examined solely on the principles of auditing.

The overall performance in this session was better than that of the last session, and the percentage of candidates passing the examination has been improved. However, the poor performance in compulsory questions B1 and B2 dragged the overall performance down.

Candidates should bear in mind that tipping topics is a dangerous strategy under the existing examination format as the 30 marks of compulsory questions from Section B can be decisive in determining whether a pass can be achieved. Although the coverage on Auditing has been reduced, candidates are expected to have in-depth auditing knowledge on topics with a level 2 competence.

Section A – 20 Multiple-choice Questions

Questions were set on a wide range of topics within the syllabus covering Auditing and MIS. 14 questions were set on Auditing and six questions were set on MIS. In contrast to the overall examination performance, candidates showed much better results in this section.

Among the questions relating to Auditing, most candidates misunderstood that the number of samples selected for tests of controls would affect the auditor’s judgement in the determination of sample size for substantive procedures. Indeed tests of controls aim to identify any non-compliance of laid down control procedures, while substantive procedures aim to provide evidence on the fairness of an account balance.

Regarding questions on MIS, many candidates did not understand the term “encryption”. Encryption is the conversion of data into a form, called a ciphertext, which cannot be easily understood by unauthorised people. Furthermore, candidates failed to identify that there are four criteria for evaluating software packages, which include ownership, users’ requirements, support provided, and vendors’ characteristics.

Section B – 3 Compulsory Questions

On the whole, the performance was not satisfactory. Candidates performed poorly in both questions B1 and B2. Many candidates did not read the requirements carefully and gave irrelevant answers.

Question B1

This question examined candidates’ knowledge of two methods of documenting internal control systems, namely narrative notes and flowcharts, and the advantages of the standardisation of audit working papers. Not many candidates who attempted this question were able to score 5 marks or above.

In parts (a) and (b), many candidates failed to score because they only listed out the characteristics of the two methods without stating their respective advantages and disadvantages.

In part (c), many candidates stated the purpose of audit working papers rather than the advantages of the standardisation of audit working papers.

Question B2

This question examined candidates' knowledge of auditing through the computer and auditing around the computer. However, most candidates did not prepare for this topic at all and hence many candidates failed to get marks. A few candidates who attempted this question were able to score 5 marks or above.

In part (b), candidates had the misconception that if the tests of controls showed the existence of strong internal controls, then the auditors would adopt the approach of auditing around the computer. However, they have no relationship between each other.

Candidates should expect that questions on this topic will frequently appear in this paper.

Question B3

This question examined candidates' knowledge of data mining and online analytical processing. The performance was good. Most candidates who attempted this question were able to score 5 marks or above.

Section C – 3 Optional Questions

Candidates' performance in questions C1 and C2 were not satisfactory. They could not demonstrate that they had good knowledge of the respective management information systems asked in questions C1 and C2. With respect to Auditing, candidates could gain marks largely from questions of level 1 competence. Candidates are expected to have a high coverage on topics of level 2 competence in this paper.

Question C1

This question examined candidates' knowledge of a data warehouse, materiality, uncorrected misstatements and audit risk. Not many candidates who attempted this question were able to score 12.5 marks or above.

Parts (a) to (c) related to a data warehouse. Most candidates were not well prepared for this topic and gained only a few marks.

Parts (d) to (f) related to materiality. Most candidates were unable to handle these questions which demanded a level 2 competence. Candidates have to understand the underlying reasons for the audit procedures taken by the auditors, otherwise, they will not be able to score marks on these types of questions.

Candidates performed quite well in parts (g) to (j) which were questions of level 1 competence.

Question C2

This question examined candidates' knowledge of audit evidence, directional testing, and transaction processing systems. Not many candidates who attempted this question were able to score 12.5 marks or above.

Candidates performed well in parts (c) and (e). Both parts were questions of level 1 competence. However, candidates had difficulty in explaining the appropriateness and sufficiency of audit evidence. As a result, they scored low marks in parts (a) and (b).

Part (d) was a question of level 2 competence. Quite a number of candidates failed to read the given illustrations and lost track of the direction in answering the questions. The principle is that cash is the asset with the highest risk of being misappropriated, and hence auditors are normally concerned more with:

- the understatement of income than the overstatement of income;
- the overstatement of expenses than the understatement of expenses;
- the overstatement of assets than the understatement of assets, and
- the understatement of liabilities than the overstatement of liabilities.

Candidates did not perform well in parts (f) to (h). They were not familiar with a transaction processing system or a decision support system, and thus they could not make comparisons with a management information system.

Question C3

This question examined candidates' knowledge of audit documentation and the three levels of management activity, namely strategic management, tactical management and operational management. About half of the candidates who attempted this question were able to score 12.5 marks or above.

Parts (a) to (e) related to audit documentation. Some candidates gave similar answers in both parts (a) and (b). They failed to note that the answer for part (b) had to be different from that of part (a). Part (c) was a question of level 2 competence. Many candidates failed to note the requirements and gave irrelevant answers.

Candidates performed quite well in parts (d) to (g). In part (g), they were able to distinguish the differences among strategic management, tactical management and operational management.

[END OF EXAMINER'S REPORT]