

Examiner's Report

June 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. 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. This paper is structured in a way that under any circumstance candidates have to attempt 30 marks of MIS questions. 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 disappointing with only one-quarter of the candidates attending the examination obtaining a pass.

The poor performance in compulsory question B2 and all three optional questions in Section C dragged the overall performance down.

Candidates encountered two major issues in this paper. Firstly, they failed to prepare for the MIS topics; gaining very few marks from the MIS questions. Secondly, they did not have in-depth auditing knowledge on topics which demanded a level 2 competence. As a result, they could not answer questions asking for an explanation, a rationale, or factors to be considered. They only managed to obtain marks from questions which asked for a definition or a simple answer.

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.

Most candidates gave wrong answers on two Auditing questions. The first question was about the component of the aggregate of uncorrected misstatements. The components include: (i) specific misstatements identified by auditors in the current year; (ii) non-specific misstatements estimated by auditors in the current year; and (iii) specific misstatements identified but uncorrected by auditors during the audit of prior periods. An example of non-specific misstatements estimated by auditors is the under accrual of a provision for doubtful debts. Auditors perform assessments of the provision for doubtful debts based on the age and balance of debtors at the financial year end date and compare it with the actual amount provided by the client to work out the over accrual or under accrual. The under accrual of the prior year may turn out to be a bad debt (charged to the current year’s profit and loss account) or included in the current year’s provision, and thus it is unnecessary to include non-specific misstatements estimated by auditors from prior periods. The second question was about the nature of statistical sampling, which is a method of drawing inference about a large volume of data by examining a sample.

Section B – 3 Compulsory Questions

On the whole, the performance was not satisfactory. Candidates performed poorly in question B2, thus dragging the overall performance of this section down. Many candidates did not read carefully the given background information and missed out important hints on tackling the questions.

Question B1

This question examined candidates' knowledge of the management representation letter. This was the best answered question. Half of the candidates who attempted this question were able to score 5 marks or above.

Apart from some candidates mixing up a management representation letter with an engagement letter, candidates did not have much problem on parts (i) to (iii).

In part (d), many candidates stated that the management representation letter would ordinarily be dated the same date as the board's approval of the financial statements, which is not correct. Indeed in certain circumstances, auditors may date the audit report later than the date of the board's approval of the financial statements.

In part (e), most candidates failed to note that the auditors required management to represent that they believed that the effects of those aggregated uncorrected misstatements as identified by the auditors were immaterial to the financial statements taken as a whole. If management considers such misstatements are material, they should adjust the financial statements accordingly.

In part (f), candidates were weak in presenting the rationale. If the evidence is readily available, there is no reason for auditors not to carry out such a procedure to collect the evidence.

In part (g), most candidates correctly pointed out that the auditors should express a qualified opinion. However they failed to note that the auditors have to evaluate any reliance that the auditors have placed on other management's oral representations and their implications if the management also refuses to provide a written representation thereon.

Question B2

This question examined candidates' knowledge of tests of controls and types of audit procedures, and was considered the easiest question. The performance was very poor, and not many of the candidates who attempted the question were able to score 5 marks or above.

Candidates did not follow the provided information and gave irrelevant answers to parts (a) and (c). By reading the information carefully, candidates should have identified from the second row ". . . audit procedures whose nature, timing, and extent . . .". Candidates should have easily gained four marks from part (a), if they had focused on "nature" and "timing". Again, candidates did not think why an example of a common type of audit procedures was given in the background information. If they note that only one word (inspection) is used to describe a type of audit procedures, they should focus on single words, such as observation, reperformance, confirmation, inquiry and etc.

In part (b), candidates correctly noted that audit documentation is audit evidence, but they failed to note that these records form the basis for the auditors' report.

Question B3

This question examined candidates' knowledge of the intranet and general controls. The performance was average.

In parts (b) and (c), some candidates mixed up the benefits and problems of the Internet with those of an intranet.

Part (d) could be treated as a multiple-choice question. Candidates should go through each of the six categories of general controls for each CIS environment review procedure, and identify the best choice by elimination. Don't try to find an answer directly without reading all the choices, as it is quite easy to overlook the best answer. In part (d), most of the mistakes were in items (i), (iv) and (v).

Section C – 3 Optional Questions

Performance in this section was very poor. Candidates performed the worst in question C1. Their performance in questions C2 and C3 were not satisfactory. They could not demonstrate that they had any knowledge of the respective management information systems asked in questions C1 and C3. With respect to Auditing, candidates could gain marks solely 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 expert systems, tests of controls, analytical procedures and substantive procedures. A few of candidates were able to score 12.5 marks or above.

Parts (a) to (c) related to an expert system. Most candidates were not well prepared for this topic and gained no marks. On the other hand, a few well prepared candidates achieved high marks.

Unexpectedly candidates performed badly in parts (e) to (i). These auditing topics were of level 1 competence, but they could not grasp the difference between tests of controls and substantive tests. Regarding analytical procedures, they did not know the factors needed to be considered by auditors when designing and performing the tests.

Question C2

This question examined candidates' knowledge of the control environment and e-commerce.

Parts (a) to (e) covered auditing topics of level 2 competence. Candidates performed well in part (a), but quite weak in parts (b) and (c). They did not know how to apply the answer from part (a) to elaborate the discussion in part (c). The performance in parts (d) and (e) were average.

In part (f), candidates could not give sufficient points to obtain the maximum mark.

Question C3

This question examined candidates' knowledge of the audit report and business intelligence systems ("BIS").

This question is mostly of level 2 competence. For those candidates who had memorised the standard audit report, they should be able to obtain high marks in parts (a) to (c). In part (d), some candidates were confused about the four types of qualified report.

In parts (e) and (f), the candidates were not well prepared for the topic of BIS and performed poorly.

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