

Examiner's Report
AAT(SL) Final Examination - July 2011
(61) AUDITING

The overall performance of candidates on this paper is at a fairly satisfactory level.
General observations of Examiners are as follows:

Question No. 01 - (Marks Allotted 17)

(a) In this part of the question, the examiner expected from candidates to explain the difference between final audit and interim audit. Almost all the candidates have attempted this part of the question. Majority of the candidates explained correctly.

But few candidates have mentioned irrelevant points,

Eg. They have answered without considering on the basis of timing of the audit.

- Interim audit is an internal audit.
- Interim audit is a stock taking conducted by entity before the year end.

Performance: *Fairly satisfactory.*

(b) In this part of the question, candidates were requested to list out three factors that determine the scope of an audit.

This was a knowledge based question and answer to this part of the question was varied considerably. Majority of the candidates misread the question and they have given wrong answers for the scope of an audit.

Few candidates have correctly given the factors which determine the scope of the audit according to the SLAUs and obtained full marks.

Common errors and reasons for low marks:

- (1) Some candidates have mentioned limitations of scope of audit.
- (2) Some candidates have mentioned the fundamental principles of an audit.
- (3) Few candidates have written component of audit risk.
- (4) Majority of candidates stated SLAS also to determine the scope of audit.
- (5) Mentioned about nature of business.

Performance: *Not satisfactory.*

(c) Candidates were required to list out the three components of the audit risk. This was a knowledge based question and the examiner expected them to answer using the knowledge of SLAUs. Significant number of candidates correctly list out the three audit risks. According to the SLAUs. However few candidates stated the following as the components of audit risk.

- Sample test.
- Test of control.
- True and Fairview opinion.
- Bank transactions.
- Compliance test.
- Business risk.
- Operating risk.
- Financial risk.

Performance: *Fairly satisfactory.*

(d) This was a theory based question and candidates were required to briefly explain the value for money audit. Majority of candidates have not attempted this part of the question. Few candidates have given the correct answer & the majority of the candidates did not have any idea about value for money audit and they have pointed out the following:

- Explained this is the year-end cash verification.
- Some others mentioned as verification of cash transaction or fraud investigation.
- Some explained as the auditor does the work only for money without integrity and independence.
- Audit carried out by auditor depend on money.
- The work carried out by the auditor with regard to the value of the transactions relating to the financial institutions.

Performance: *Not satisfactory.*

(e) In this part of the question candidates were required to list out four fundamental principles governing the professional conduct of an Accounting Technician. This was a theory based question and candidates need to answer using the knowledge of AAT Code of Ethics and Conduct. A significant number of candidates obtained full marks by correctly using the 4 points. But few candidates provided incorrect answer.

Eg:

- Determines the scope of an audit.
- Information of the Technician.
- Work and activities of the technician.

Performance: *Satisfactory.*

Question No. 02 - (Marks Allotted 14)

- (a) (i) In this part of the question the examiner tested the knowledge of the candidates about the internal control. Almost all the candidates have attempted this part. But most of the candidates could not give a reasonable definition.

Some of the definitions given by the candidates were as follows:

- Internal control is controls relating to business activities.
- Good internal controls will reduce the Fraud & Errors.
- It considers only internal activities.
- Internal control is minimizing the fraud & errors.

Most of the candidates do not have a satisfactory knowledge about the terms “internal controls”.

- (a) (ii) In this part, examiners tested the knowledge of the candidates about responsibility of implementing appropriate internal controls in a organization and the auditors responsibility with regard to internal controls.

There were common mistakes done by the candidates.

- Some candidates have not mentioned whether they agree or disagree.
- Fair number of candidates mentioned that the auditor is responsible for introducing any important internal controls and they have given highly irrelevant reasons to justify the answer. Most of the candidates have mentioned the main objective of the auditor. The candidates did not know the responsibility for the internal control with the management and they did not know the auditor will communicate to the management any internal control weakness come across while carrying out the audit.

Performance: *Not satisfactory.*

(b)

- (i) In this part of the question, examiner tested the knowledge of the candidates about internal controls with regard to purchasing of equipments. This question was also a knowledge based question as well as practical questions and tested the ability or application of theoretical knowledge. The most of the candidates have analyzed the given scenario and identified number of weaknesses and obtained high marks.

- (ii) In this part, the most of the answers were given proper suggestions to improve the system.

But some candidates have not noted that the purchasing system which has been tested in the questions was related to purchasing of capital assets.

Performance: *Satisfactory.*

Question No. 03 - (Marks Allotted 18)

- (a) Candidates were required to list out 4 advantages of working papers. Some candidates have misunderstood the question and they have based their answers with audit programs, though it was a straight forward question, and some another candidates have given irrelevant answers:

Eg:

- Work can be completed on due date.
- Audit could be done very easily due to availability of basic information.
- Working papers can be helped to make decision by Board of Directors.
- Some candidates have mentioned the advantages of planning of an audit.

Performance: *Fairly Satisfactory.*

- (b) (i) In this part of the question, candidates are required to list out the objective of an engagement letter. This was also a knowledge based question. Most of the candidates misread the question and identified as letter of appointment of an employee. Some candidates have given one or two objectives and obtained few marks.

- (ii) In this part of the question, candidates were requested to list out 4 principles matters that can be intended in the letter of engagement. The candidates could answer using the theoretical knowledge of SLAUS.

Most of the candidates have attempted this part of the question. But majority of the candidates misunderstood the question with an appointment letter of an employee and they have mentioned the elements of a letter of appointment for an employment.

Performance: *Not Satisfactory.*

- (c) (i) Candidates were required to define the terms fraud & error. This was a theory based and straight forward question. The candidates could answer this question using the knowledge of SLAUs.

The most of the candidates attempted this part of the question. But most of the candidates did not focus on exact definition of fraud & error. Some candidates have given general answers without mentioning the intentional for the fraud and unintentional for the error.

- (ii) In this part candidates were required to give “yes” or “no” answer with regard to the statement given in the question about definition and prevention of frauds & error and explain the reasons for the agreed answer.

The candidates could answer using the knowledge of the SLAUS about Fraud & Error. According to the SLAUS responsibility of prevention and detection of fraud & error is with the management and not with the auditors. Some of the candidates have mentioned that the auditors are responsible for prevention and detection of fraud & error and some candidates have disagreed with the statement but they could not give reasons for that.

Due to the above reason most of the candidates obtained low marks. .

Performance: *Not Satisfactory.*

Question No. 04 - (Marks Allotted 22)

(a) In this part of the question, the examiner tested the knowledge of the candidates' about general controls in an electronic data processing system.

- (i) In this part, the objective of general controls are to obtain reasonable assurance that the overall objectives of internal controls are achieved. The majority of the candidates could not explain the objectives of general controls. They wrote about some general controls such as passwords, backup, physical security, etc. and obtained low marks.
- (ii) In this part, examiner tested the knowledge of the candidates about general controls in an EDP system. This was also a knowledge based question and some candidates have given the correct answer using their theoretical knowledge.

Most of the candidates did not know what are the general controls and some candidates have given application controls as general controls.

Performance: *Not Satisfactory.*

(b) The examiner tested the knowledge of the candidates about audit procedure to be performed in verification of accounts payable.

This was a knowledge based as well as practical question. The candidates can answer this question using their theoretical knowledge as well as practical knowledge. But most of the candidates used their theoretical knowledge to answer the question.

In this part, the examiner expected the candidates to write important four audit procedure. But some candidates have misunderstood the payable as receivables and given the verification of debtors. Some have mentioned about making the bad debts provisions for payables. Therefore they obtained low marks due to the above reasons.

Performance: *Fairly Satisfactory.*

(c) In this part of the question, examiner tested the knowledge of the candidates about evidence in support of assertions such as ownership, existence and cost/valuation.

This can be answered using practical experience and as well as theoretical knowledge.

(i) **Plant & Machinery:**

Ownership of the Plant & Machinery for the purchase document / invoices / shipping documents may be evidence for the existence. Some of the candidates misunderstood Plant & Machinery as Property and given evidence such as deeds. Some other candidates have written registration book as evidence, misunderstood the machinery as Motor Vehicles.

Existence except few candidates, the most of the candidates have correctly mentioned the physical verification as the evidence for existence.

Valuation some candidates wrote cost or market value / net realizable value as valuation of Plant & Machinery which is not correct.

(ii) **Fixed Deposits:** In this part the most of the candidates have answered correctly.

(iii) **Inventories:**

For the ownership, the most of the candidates mentioned about purchase documents such as invoice GRN, PO, etc. and the evidence for existence as physical verification and obtained marks.

(iv) **Investments in shares of listed companies:**

Some candidates have given irrelevant documents for ownership and valuation. Deed of share for valuation and ownership.

Performance: *Fairly Satisfactory.*

Question No. 05 - (Marks Allotted 12)

(a) Candidates were required to identify 4 issues that require special attentions. During the audit of trade receivable account candidates were provided the information in the question.

Examiner expected the candidates to use both theoretical as well as practical knowledge to identify the issues in the given scenario.

Common mistakes and reasons why those did not obtain marks.

- Some candidates have misread the question and mentioned general reasons without referring to the scenario.

Eg: 1. Check the opening balance with the previous year audited accounts.

2. Check the approving system of credit to debtors.

3. Check the individual debtors account balance to monthly statement.

4. Obtain list of debtors, balance and check with the trial balance.

- One invoice was outstanding more than one year but some candidates failed to identify that invoice.

Performance: *Not Satisfactory.*

(b) Candidates were required to explain reasons for performing the audit procedures relating to the financial statements of the XYZ (Pvt) Ltd.

(i) In this section, candidates were required to provide at least two reasons for checking the rent agreement the most of the candidates had written that it was necessary to verify the correct rent expenses only.

But some candidates correctly mentioned other reasons for checking such as ownership of the building, legal validity of agreement and rent advance deposit made by the client.

- (ii) In this section, the candidates were required to give audit procedures for sales invoices raised immediately after the end of financial year. The main reason for this scrutinization was to check the cut-off date for the sales.

Only minority of the candidates have mentioned about the cut-off date. Most of the answers were highly irrelevant and obtained low marks.

- (iii) Candidates were required to explain reasons for reviewing the registration books of the vehicles listed in XYZ's fixed asset register.

The most of the candidates had written that it is to check the ownership of the Motor Vehicles and obtained full marks allotted for this section.

But some candidates mentioned highly irrelevant answers. Such as:

- Check the depreciation rate.
- Determine the useful life of the vehicles.
- Accounting treatment for vehicles.
- Check the cost of the vehicles.

Performance: *Fairly satisfactory.*

Question No. 06 - (Marks Allotted 17)

- (a) In this part, examiner tested the knowledge of the candidates about auditors responsibility in evaluating the appropriateness of the going concern assumption of an entity. The most of the answers were displayed their lack of knowledge in this area. Hardly any candidates answered this part satisfactory. Majority of the candidates obtained low marks because they have left out that the auditors responsibility to consider the appropriateness of managements use of going concern assumptions in the preparation of financial statements & consider whether there are material uncertainties about the entity to ability to continue as going concern.

Performance: *Not satisfactory.*

- (b) In this part of the question, examiner tested the knowledge of the candidates about the audit procedures to identify subsequent events. This also a knowledge based question and examiner expected the candidates to use their knowledge of Sri Lanka Auditing Standards "Subsequent Events" in answering this part of the question.

The following type of answers were came across and indicated their lack of knowledge about the SLAUS on subsequent events.

- The most of the candidates had written examples of subsequent events and misread the audit procedures.
Eg: Fire, Bankruptcy of customer.
- Some candidates mentioned walk through test cutoff testing, Bar charts as appropriate audit procedures.
- Whilst some other indicates Inquiry, investigations, computation, Recalculations, etc. as audit procedure.

- (c) In this part of the question, examiner tested the knowledge about the adverse audit opinion. This was also a knowledge based question and examiner expected the candidates to use their knowledge on SLAUs to answer this part of the question.
- The majority of the candidates' knowledge on the qualification of an audit opinion is poor and they were not familiar about types of audit opinion. The most of the candidates did not know about materiality and beyond that (pervasive). Some suggested if disagreement is material and express adverse opinion and some candidates mentioned adverse opinion is expressed when scope of limitations occurs. Such as non availability of documents limiting access to records, etc.
 - The most of the candidates had written both scope limitation and disagreement with management.
 - Some candidates mentioned as disagreement with management, but did not use the exact technical words "Material and Pervasive".

Performance: *Not Satisfactory.*

- (d) In this part of the question (i) and (ii) examiner tested the knowledge of the candidates about powers of the Auditor General and the types of the institution whose accounts are audited by the Auditor General of Sri Lanka.

Candidates are expected to give the answer according to the constitution of 1978. Most of the candidates have attempted this part of the question and obtained fairly satisfactory marks. But some candidates obtain low marks due to the following:

- Auditor General has right to receive salary from consolidated fund.
- Right to take legal action against employees committed to frauds.
- Some candidates had given the organizations such as,
 - Banks
 - Leasing companies
 - Public companies
 - Names of the department (Eg: Inland Revenue)

Performance: *Fairly Satisfactory.*

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