

AUDITING

General:

The paper had a mix of questions testing both the theoretical and practical knowledge of the students. As expected, candidates did well on the theoretical part but seemed to be confused while applying their knowledge on scenario based questions. Although it is little early at this stage but students should try to attempt these questions more conceptually and should avoid putting too much irrelevant information in the answers. They should also focus on presentation and try to provide a clear explanation of the point examined, if they really want to succeed in the examination.

- Q.1 (a) This part was really simple. Most students were able to emphasis correctly that auditor is responsible to perform procedures to evaluate subsequent event and such procedures should be performed as near as possible to the date of audit report.
- (b) Few students answered this question fully. Most of them spoke about the impact on the Auditor's report in case of Management's acceptance or refusal to change the Financial Statements. However, most students failed to express that additional procedures needed to be performed to ascertain the impact of subsequent events or that users of Financial Statements, or those already in receipt of previously issued Financial Statements need to be informed. Some students misunderstood the question and narrated the steps required to be carried out prior to the issuance of audit report.
- Q.2 Legal provisions relating to appointment of auditor is a topic regularly examined and was fairly attempted. However, some of the students seemed confused and made the following types of errors:
- Failed to point out that directors can not appoint first auditors after 60 days of incorporation.
 - Emphasised the issue of undercutting but failed to realize that an MBA cannot be appointed as auditor of a public company.
- Q.3 This was a straightforward question, but was not attempted well by most students. Instead of focusing on the main responsibilities of the engagement partners, most of the scripts contained very general points which were irrelevant in the given context. For example, while explaining the responsibilities of engagement partner as a leader of the engagement team, a large number of students mentioned qualities which are mentioned in the books on General Management. Such answers are mostly irrelevant.
- Q.4 (a) This part was attempted well by most of the students as they were able to identify and explain the following as the reasons on account of which the auditor is unable to give absolute assurance.
- Inherent limitations
 - Use of judgment
 - Nature of certain transactions and information

- (b) It was very surprising to see that students didn't perform well in the question where they were asked to specify the characteristics, which make working papers self-explanatory. They should know that working papers are self-explanatory if an experienced auditor without previous exposure to a particular job is able to determine the following:

- Nature, timing and extent of audit procedures.
- Results of audit procedures and audit evidence obtained.
- Significant matters arising during the audit and the conclusions drawn.

Q.5 Most student failed to pick the requirements. Many of them restricted their answers to discussing whether the auditor should give a qualified or an adverse opinion. Generally, in a situation as given in the question, the errors found by the audit team are projected to the whole population. After comparing the projected errors with the materiality level, the auditor considers the future course of action such as applying extended procedures, adjusting financial statements or issuing modified report.

Q.6 Again an easy and marks gaining question. Majority of the students got good marks. However, several students incorrectly concluded that management representation should be accepted as audit evidence in the given situation.

Q.7 This was a difficult question based on a practical situation. It required decision making with regards to acceptance of audit engagement where the firm had almost no experience of audit of similar businesses and significant doubts existed about professional competence of auditors of two of the client's branches. The important matters that an auditor should consider in such situations are summarized below:

- Significance of the branches audited by other auditors and risk of material mis-statement in their financial statements.
- Possibility of hiring an expert or acquisition of relevant knowledge.
- Additional procedures required to be performed in respect of the concerned branches.
- Whether and how risk can be mitigated.

Most of the students concentrated on the first point only.

Q.8 (a) Most students failed to understand the question and performed badly. A good approach could have been to determine the amount of acceptable difference by considering the following:

- materiality level
- required degree of assurance
- aggregate differences in other account balances and
- expected degree of accuracy.

Many of the above are dependent on the nature of the Company's business, about which no information was given in the question. The students could have highlighted this issue in their answers.

- (b) Most examinees correctly listed the factors on the basis of which the reliability of data is assessed such as source comparability, nature and relevance of information etc. However, many students mixed it up and discussed the reliability of audit evidence which was not required.
- Q.9 (a) The answer had to be given with respect to three different types of uncertainties i.e. insignificant uncertainty, significant uncertainty and multiple uncertainties. Very few students were able to mention all three possibilities and their possible effect on the auditors report.
- (b) This question was answered poorly. The main points which were expected to be emphasised in the answers were as follows:
- The date of audit report should not be earlier than the date on which auditor obtains sufficient evidence on which his report is based.
 - The date of audit report informs the reader that the auditor has considered the effect of events and transactions upto that date.
- Q.10 (a) This was a straightforward question but most of the students failed to gain good marks. Most of them tried to reproduce the contents of audit report including the paragraph relating to audit opinion. Very few were able to restrict their answers to relevant points only and distinguish between responsibilities of management and those of the auditors.
- (b) Most of the students discussed the two possibilities i.e. qualified and adverse opinion based on the materiality and pervasiveness of the disagreement. However, while describing the possible modifications very few could emphasise that in either case the auditor is required to give clear reasons for modification and quantify the effect of disagreement on the financial statements.
- Q.11 (a) Most candidates forgot that this question wanted to discuss initial audit engagements and not recurring audits. They did not discuss opening balances, client positioning and significant audit issues inherited from previous auditors, contacts with previous auditors with the consent of management and so on.
- (b) Again, majority of the students, tried to solve this question with irrelevant stuff and on the basis of their general understanding. They failed to address the essence of an audit plan.
- Q.12 Most of the students were able to describe the terms Statistical Sampling, Stratification and Sampling Risk correctly. They also knew that if the auditor assesses that controls are effective when in fact they are not, it will create a risk that material mis-statement may remain undetected. However, very few could identify the reverse situation i.e. if the auditor incorrectly concludes that controls are in-effective, it will affect the efficiency of the audit.