

**EXAMINERS' COMMENTS**

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<b>SUBJECT</b>	<b>SESSION</b>
Auditing	Intermediate - Autumn 2007

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Overall observation

On an average candidates performed below satisfactory level as only approximately 30% candidates managed to get passing marks. The questions were fairly straight forward and relatively simple and students could have performed well had they read the Auditing standards in a reasonable depth and approach the questions logically. It is apparent that besides lack of knowledge, the students also suffer from lack of presentation and communication skills.

Questions-wise comments are as under:

- Q.1 This was a simple question set by the examiner to gauge the knowledge of candidates about external confirmation when auditor has been restrained to obtain third party confirmation and alternatively he has been asked to rely on the other audit evidence. The performance of the candidates remained unsatisfactory. Most of the answers were restricted to alternate audit procedures and the assessment of grounds for not allowing direct confirmation requests. Candidates could only explain the eventual disposition available to the auditor in the form of modifying the auditors' report but they failed to appreciate other considerations like indication on the management's integrity and doubts regarding the existence of fraud and errors etc.
- Q.2 This was one of the easiest questions set by the examiner and majority of the candidates performed well as they were able to describe the principal methods of selecting the samples such as Random Number Tables, Computerized Random Numbers, Systematic Selection, Haphazard Selection, Block Selection. However, some students unnecessarily wasted their time in drawing random number tables or tables for systematic selection which was altogether not required.
- Q.3 This was one of the easiest questions set by the examiner and majority of the candidates performed well and were able to secure full marks.
- Q.4 The question tested students knowledge about verification procedures pertaining to fixed assets together with its related assertions. It was surprising to see that the question was not well answered. The students didn't even know all the assertions and also gave irrelevant information. Some of the students didn't give the assertions at all while in many cases the co-relation between audit procedures and audit assertions was incorrectly made.

- Q.5 (a) This question was set by the examiner to test the knowledge of the candidates about the matters to be considered in establishing the scope of audit. Very few students could manage to list reasonable number of valid points. The important considerations include financial reporting framework, extent of reliance on the work of internal auditors, areas requiring specialized knowledge and use of experts, use of information technology and use of information based on previous audits specially the information relating to risk assessment procedures and tests of controls.
- (b) This was again a simple question and majority of the candidates secured good marks as they correctly explained various risk assessment procedures such as analytical procedures, inquiries from management, inspections and observations etc.
- Q.6 This was a simple question but surprisingly students could not perform well. In part (a) majority of the students declared that auditor is not responsible for detecting fraud. In fact the auditor is required to obtain reasonable assurance that the financial statements are free from material mis-statement whether caused by fraud or mistake.
- Q.7 This was one of the easiest of questions. Most students were able to list the matters which are required to be reported in the audit report. However, some students misunderstood the question and instead of restricting themselves to matters referred to in Section 255 of the Companies Ordinance 1984, they started to list and describe matters on the basis of which the audit report is qualified.
- Q.8 (a) Most of the students only stated that the auditor should not accept an assignment if restrictions are placed on performing certain audit procedures, prior to its acceptance. However, this is not the only available option. Although the auditor has every right to refuse an assignment, usually he will refuse to accept the audit only if the restrictions are such that these may result in a disclaimer of opinion.

However, if such limitations do not have a pervasive effect on the financial statements the auditor may accept the assignment. In such a case, he may communicate his concerns through the engagement letter.

The students response was much better in describing the auditors course of action in case limitations on carrying out audit procedures are imposed during the audit. Most of them were able to correctly address the following issues in their answers:

- (i) Carrying out alternative audit procedures.
- (ii) Possible effects on the audit opinion i.e. qualification, disclaimer etc.
- (iii) Matters to be covered in the audit report, in case modification becomes necessary.

- (b) The students were generally able to list the circumstances in which a report is modified without affecting audit opinion like material uncertainty as regards going concern, any other significant uncertainty (as opposed to multiple uncertainties) and where other information attached to the financial statements is incorrect etc.

While discussing as to how the modification is dealt with in the auditor's report, most students restricted their answers to stating that an emphasis of matter paragraph has to be added. Very few of them could discuss related issues such as the reference to the relevant note to the financial statements, placement of the emphasis paragraph in the audit report and the requirement to clarify that the opinion is not qualified.

- Q.9 Poor performance was witnessed in this question. In part (a) students didn't have a clear cut idea of the difference between a review engagement and an audit. A review is performed with the objective of expressing a conclusion (as against expressing an opinion). Accordingly, in a review of financial statements an auditor merely expresses that nothing has come to his attention which may cause him to believe that the financial statements have not been prepared in accordance with the applicable financial reporting framework. In part (b), while describing the procedures that are performed in an engagement to review interim financial statements, most of the students listed the same procedures which are generally performed in an audit.

- Q.10 This question was fairly simple and had the students studied the relevant auditing standard in reasonable depth they could have performed well. Most of the students appeared to be confused and narrated the audit procedures which the principal auditor usually performs before placing reliance on the work of the other auditor. But the requirement of the question was altogether different. The question dealt with a situation in which the local regulations allow the auditor of a parent company to place reliance **solely** on the report of the auditor of the subsidiary. The students were required to explain what impact such regulation will have on the audit procedures and audit report to be issued by the principal auditor.

Many of the students advised that the principal auditor need not perform any procedures as the local regulation allow him to do so. But this advise is not in accordance with the International Standards on Auditing ISA-600.

The students are advised to study para 18 of the International Standard on Auditing - 600 related to 'using the work of another auditor' to seek guidance on this issue.

**(THE END)**