



Hong Kong Institute of
Accredited Accounting Technicians
香港財務會計協會

Professional Bridging Examination

Paper III PBE Auditing and Information Systems

June 2010 Session (Questions)

| | |
|--|----------|
| Time Allowed | 3 hours |
| Examination Assessment Allocation | |
| • Section A – The One question is compulsory | 40 Marks |
| • Section B – Answer 3 out of 4 questions | 60 Marks |

PAPER III – PBE AUDITING AND INFORMATION SYSTEMS

This examination is divided into TWO sections.

- Section A (40%). This consists of ONE compulsory question. You should allocate approximately 1 hour 12 minutes in total for Section A.
- Section B (60%). This consists of four questions, of which you must answer THREE questions only. Each of these three questions is worth 20% of the total marks (making Section B worth 60% of the total marks). You should allocate approximately 36 minutes for each question (that is, 1 hour 48 minutes in total for Section B).

Suggested Time Allocation (by marks):

| Marks | Approximate time (minutes) |
|-------|----------------------------|
| 1 | 2 |
| 2 | 3 |
| 3 | 5 |
| 4 | 7 |
| 5 | 9 |
| 6 | 11 |
| 7 | 12 |
| 8 | 14 |
| 9 | 16 |
| 10 | 18 |
| 11 | 20 |
| 12 | 21 |
| 13 | 23 |
| 14 | 25 |
| 15 | 27 |
| 16 | 29 |
| 17 | 30 |
| 18 | 32 |
| 19 | 34 |
| 20 | 36 |

SECTION A (COMPULSORY) (Total: 40 marks)

Answer **ALL** questions in this section. Marks are indicated at the end of each question. Together they are worth 40% of the total marks for this examination.

CASE

GF Limited, a private company engaged in the operation of a Chinese food restaurant, which is owned and run by two directors with experience in this industry. The restaurant provides very good food. Most customers order shark's fin, abalone and birds' nest in this restaurant. The average spending per customer is HK\$1,500. On 2 January 2010, Mary Lee, a partner of a 10-partner firm, ABC & Co, was approached by GF Limited to replace the previous auditor, XYZ & Co. XYZ & Co retired in September 2009 after submitting the auditor's report for GF Limited's financial statements for the year ended 31 December 2008, wherein XYZ & Co expressed an adverse opinion that GF Limited should not be accounted for as a going concern, and that no inventory count was performed. The directors have great confidence in the continuing viability of their business, and so GF Limited kept a large amount of inventory which can last for six months.

The directors asked ABC & Co to commence the audit immediately because audited financial statements must be submitted to the bank by 20 January 2010 for the renewal of a bank loan.

Due to the urgency of submitting the financial statements to the bank, the directors of GF Limited asked the auditors not to carry out the inventory count, nor to send confirmation to the suppliers. The directors said that the year end day had passed and therefore it was impractical to carry out the inventory count. They had never carried out any inventory count as it would have been very time consuming. The directors will provide a written representation to ABC & Co. The accounting record was prepared by Mrs. Chan, who only completed secondary school. Mrs. Chan had never taken a public examination in accounting. Mrs. Chan advised that the suppliers' monthly statements would be available for inspection. She kept more than 70% of the monthly statements from the suppliers, but the remaining statements were misplaced.

In order to motivate the auditors to meet the tight deadline, the directors proposed that the audit fee would be a fixed amount plus a fee contingent on the success of the renewal of the bank loan.

Question 1 (40 marks – approximately 72 minutes)

- (a) What are the responsibilities of the auditors regarding the acceptance of the audit engagement?
(5 marks)
- (b) What are the obligations of the incoming auditors regarding the change in auditors of GF Limited?
(5 marks)

- (c) How does a going concern affect a company in the preparation of its financial statements? What are the responsibilities of an auditor regarding going concern assumption as used in the preparation of financial statements?
(5 marks)
- (d) Should ABC & Co use the written representation from the directors as alternative audit evidence in place of attending the inventory count at the balance sheet date? And if not, what should be the necessary audit procedures?
(7 marks)
- (e) Why is the audit of inventories important?
(3 marks)
- (f) Can ABC & Co use the suppliers' statements provided by GF Limited as alternative audit evidence for confirmations from suppliers? Elaborate your answer.
(3 marks)
- (g) Mary assessed the risk of material misstatement at the financial statement level as not low.

Required:

- (i) Describe the risk of material misstatement at the financial statement level.
(2 marks)
- (ii) Do you agree with Mary's assessment?
(5 marks)
- (h) Should the auditors accept the proposed audit fee arrangement, taking into consideration the Code of Ethics for Professional Accountants? What may be the threat to the independence of the CPA firm?
(5 marks)

* * * END OF SECTION A * * *

SECTION B (ANSWER THREE QUESTIONS ONLY) (Total: 60 marks)

Answer any **THREE** questions in this section. Each question carries 20 marks. Together they are worth 60% of the total marks for this examination.

Question 2 (20 marks – approximately 36 minutes)

Fashion Limited, a listed company in Hong Kong, manufactures clothes and exports the clothes to different countries. You were the audit manager responsible for the audit of Fashion Limited for the year ended 31 December 2009.

A fire broke out and completely destroyed all the clothes in a warehouse under an operating lease on 10 February 2010. The remaining 20% clothes were kept in another warehouse. The company was sued by the customers for late delivery. The financial statements were approved by the directors on 12 March 2010.

Required:

- (a) List the general audit procedures that should be performed to identify all events up to the date of the auditors report that may require adjustment of, or disclosure in, the financial statements.
(8 marks)
- (b) What specific audit procedures regarding the fire at the warehouse should be performed?
(6 marks)
- (c) What kinds of audit reports may be issued? State your assumptions clearly.
(6 marks)

Question 3 (20 marks – approximately 36 minutes)

The firm of PQ & Co., in which you are employed as a junior audit trainee, is the external auditor of Company A, which is an investment holding company. The audit manager in charge has asked you to perform substantive procedures for the property, plant and equipment ("PPE"). The account clerk of Company A provided the following schedule to you.

| | Leasehold improvements HK\$'000 | Buildings HK\$'000 | Furniture & fixtures & office equipment HK\$'000 | Motor vehicles HK\$'000 | Vessels HK\$'000 |
|------------------------|---------------------------------------|-----------------------|--|-------------------------------|---------------------|
| Cost | | | | | |
| At 1 April 2009 | - | - | 1,935 | 1,724 | 13,997 |
| Additions | 3,323 | 2,217 | 146 | 600 | - |
| Disposals | - | - | (1,217) | (524) | - |
| At 31 March 2010 | 3,323 | 2,217 | 864 | 1,800 | 13,997 |
| Depreciation | | | | | |
| At 1 April 2009 | - | - | 1,022 | 924 | 6,142 |
| Provided for the year | 646 | 89 | 74 | 900 | 2,799 |
| Eliminated on disposal | - | - | (620) | (724) | - |
| At 31 March 2010 | 646 | 89 | 476 | 1,100 | 8,941 |
| Carrying values | | | | | |
| At 31 March 2010 | 2,586 | 2,128 | 388 | 500 | 5,056 |
| At 31 March 2009 | - | - | 913 | 800 | 7,855 |

The above items of property, plant and equipment are depreciated on a straight-line method:

| | |
|--|----------|
| Leasehold improvements | 5 years |
| Building | 40 years |
| Furniture, fixtures and office equipment | 5 years |
| Motor vehicles | 3 years |
| Vessel | 5 years |

Required:

- (a) List out the substantive procedures you should perform on the furniture & fixtures & office equipment. (10 marks)
- (b) List out the audit work you should perform on the Vessels for the existence assertion and rights and obligation assertion. (3 marks)
- (c) You have just completed the analytical procedures.

Required:

- (i) Excluding furniture & fixtures & office equipment, identify any issues with the PPE schedule. (4 marks)
- (ii) Explain how the issues can be resolved. (3 marks)

Question 4 (20 marks – approximately 36 minutes)

Books Limited, which owns 30 book stores, wants to expand the business by developing its online books selling system. The company has to develop a new system to cope with the expansion of the business. Most people are resistant to such a change. Change management is essential for the success of system implementation.

Required:

- (a) Provide six causes of resistance to change. (6 marks)
- (b) Provide eight measures that can help prevent and / or minimise people's resistance. (8 marks)
- (c) Provide six measures of success that can be used to identify the success of the implementation of a new system. (6 marks)

Question 5 (20 marks – approximately 36 minutes)

You have worked on the audit for Company A, a company selling medicine to more than three hundred pharmacy stores, for a few years and this year you are manager-in-charge of the audit. A newly-recruited accounting graduate who has no practical experience is assigned as your assistant. He does not agree to perform any further audit procedures on the cash receipts during the year since confirmations will be sent to the banks for the year end balances and confirmations will be sent to selected account receivables.

Required:

- (a) Identify and briefly explain the five assertions of cash receipts. (10 marks)
- (b) List the general audit procedures that should be performed on the bank reconciliation statements? (5 marks)
- (c) Provide one test of control procedure associated with each of the assertions of cash receipts. (5 marks)

* * * END OF EXAMINATION PAPER * * *

Answers

Paper III
PBE Auditing and
Information Systems
(June 2010 Session)

SECTION A (COMPULSORY) (Total: 40 marks)

Answer 1(a)

The auditors should be satisfied that appropriate procedures regarding the acceptance of audit engagement have been followed, and that conclusions reached in this regard are appropriate and have been documented.

Acceptance of audit engagement include the considering of:

- the integrity of the two directors of GF Limited,
- whether ABC & Co is competent to perform the audit engagement and whether ABC & Co is familiar with the restaurant industry,
- whether ABC & Co has the adequate time and resources to complete the audit in such a short period of time as requested,
- whether ABC & Co and the engagement team can comply with ethical requirements.

Answer 1(b)

The incoming auditors should

- (a) find out whether the change of auditor was properly dealt with in accordance with the Companies Ordinance and/or other legislation; and
- (b) request the prospective client's permission to communicate with the ex-auditor.

On receipt of permission from GF Limited to communicate with XYZ & Co, ABC & Co should write to XYZ & Co to obtain "professional clearance"; that is, a request in writing to XYZ & Co to establish if there are any unusual circumstances surrounding the proposed change which ABC & Co should be aware of, so that ABC & Co may determine whether ABC & Co should accept such nomination.

Answer 1(c)

The going concern assumption is a fundamental principle in the preparation of financial statements.

Under the going concern assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations.

Accordingly, assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

According to HKSA 570,

The auditor's responsibility is to consider

- the appropriateness of management's use of the going concern assumption in the preparation of the financial statements, and
- whether there are material uncertainties about the entity's ability to continue as a going concern that need to be disclosed in the financial statements.

The auditor should consider the same period as that used by management in making its assessment under the applicable financial reporting framework. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the balance sheet date, the auditor should ask management to extend its assessment period to twelve months from the balance sheet date.

Answer 1(d)

When inventory is material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding its existence and condition by attendance at physical inventory counting unless, impracticable.

The auditor's attendance serves as a test of controls and/or substantive procedure over inventory, depending on the auditor's risk assessment and planned approach.

Such attendance enables the auditor to inspect the inventory, to observe compliance with the operation of management's procedures for recording and controlling the results of the count, and to provide audit evidence as to the reliability of management's procedures.

If unable to attend the physical inventory count on the date planned due to unforeseen circumstances, the auditor should take or observe some physical counts on an alternative date and, when necessary, perform audit procedures on intervening transactions. Therefore, ABC & Co should not use the written representation from the directors as alternative audit evidence for attending the inventory count.

Answer 1(e)

The audit of inventories is important as it is a significant component of the current asset in the statement of financial position. Also, the opening and closing inventories affect the cost of goods sold, the gross profit and the profit or loss for the year.

Answer 1(f)

According HKSA500-

- Audit evidence is more reliable when it is obtained from independent sources outside the entity.
- Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly.

The major difference between the suppliers' statement and creditors' confirmation is that the suppliers' statement is in the client's hand and this provides the client with the chance to alter the information on the statement and also to choose which statement is to be made available to the auditors.

Answer 1(g)(i)

The risk of material misstatement at the financial statements level refers to risks of material misstatement that relate pervasively to the financial statements as a whole and potentially affect many assertions.

Answer 1(g)(ii)

Yes, I agree. The following factors indicate higher risks:

- GF Limited has to present the financial statements for the renewal of the bank loan, putting pressure on the directors to report better operating results and financial position.
- Mrs. Chan may not be competent for the accountant job.
- Risk of management override of control is high in GF Limited due to the small size of the company.
- The inappropriate limitation in the scope of work on inventory and accounts payable has a negative implication for the integrity of GF Limited's directors.
- The directors approached ABC & Co so late and only a very short period of time is allowed for ABC & Co to perform the audit; this factor also has negative implication for the integrity of GF Limited's directors.
- The directors proposed to link the audit fee to the result of the renewal of the bank loan; this factor also has negative implications for the integrity of GF Limited's directors.

Answer 1(h)

There is a contingent fee component in the proposed audit fee. Contingent fees are fees calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed. In this case, the contingent fee is based on the success of the renewal of the bank loan.

A contingent fee charged by a firm in respect of an assurance engagement creates self-interest and advocacy threats that cannot be reduced to an acceptable level by the application of any safeguard.

Accordingly, a firm should not enter into any fee arrangement for an assurance engagement under which the amount of the fee is contingent on the result of the assurance work or on items that are the subject matter information of the assurance engagement. As the renewal of the bank loan is based on the financial statements which are the subject matter information of the assurance engagement, ABC & Co should not accept such a fee arrangement.

* * * END OF SECTION A * * *

SECTION B (ANSWER THREE QUESTIONS ONLY) (Total: 60 marks)

Answer 2(a)

General audit procedures include:

- Reviewing procedures established by management to ensure that subsequent events are identified.
- Reading minutes of the meetings of shareholders, the board of directors and audit and executive committees held after the date of the financial statements and inquiring about matters discussed at meetings for which minutes are not yet available.
- Reading the entity's latest available interim financial statements and, as considered necessary and appropriate, budgets, cash flow forecasts and other related management reports.
- Inquiring, or extending previous oral or written inquiries, of the entity's lawyers concerning litigation and claims.
- Inquiring of management as to whether any subsequent events have occurred which might affect the financial statements.

Examples of inquiries of management on specific matters are:

- the current status of items that were accounted for on the basis of preliminary or inconclusive data.
- whether new commitments, borrowings or guarantees have been entered into.
- whether sales of assets have occurred or are planned.
- whether the issue of new shares or debentures or an agreement to merge or liquidate has been made or is planned.
- whether any assets have been appropriated by government or destroyed, for example, by fire or flood.
- whether there have been any developments regarding risk areas and contingencies.
- whether any unusual accounting adjustments have been made or are contemplated.
- whether any events have occurred or are likely to occur which will bring into question the appropriateness of accounting policies used in the financial statements, as would be the case, for example, if such events call into question the validity of the going concern assumption.

Answer 2(b)

Discuss with the management and find out what exactly happened on the day fire broke out.

Obtain the list of destroyed inventory, and consider whether the amount estimated by the management is reasonable or not.

Obtain evidence of the amount of repair work that needs to be carried out for the premises, such as quotation from the contractor.

Inspect the insurance policy to see whether there is adequate coverage for all the losses, such as claims by customers for late delivery, repair work to the premises and inventory losses.

Discuss with the management to see whether the company can continue as a going concern.

Obtain written representations from the management regarding the going concern status of the company.

Answer 2(c)

If the directors consider as a result of the fire that the company cannot continue as a going concern and they produce the financial statements on a break up basis, then the audit report would not be qualified but would include an emphasis of matter paragraph.

If the financial statements are prepared on the assumption that the company is a going concern but the auditors do not agree, then the audit report will be modified with an adverse opinion.

If the use of the going concern assumption is appropriate but a material uncertainty exists, the auditor considers whether the financial statements:

- (a) Adequately describe the principal events or conditions that give rise to the significant doubt on the entity's ability to continue in operation and management's plans to deal with these events or conditions; and
- (b) State clearly that there is a material uncertainty related to events or conditions which may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

If adequate disclosure is made in the financial statements, the auditor should express an unqualified opinion but modify the auditor's report by adding an emphasis of matter paragraph that highlights the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern and draws attention to the note in the financial statements that discloses the matters set above.

If adequate disclosure is not made in the financial statements, the auditor should express a qualified or adverse opinion, as appropriate. The report should include specific reference to the fact that there is a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern.

Answer 3(a)

The substantive procedures are:

- Agree the opening balance to last year's audited account or working paper file.
- Select samples from the additions list and check the purchase invoice and fixed assets receiving report.
- Review the disposal list and check the sales agreements to see if there are any sale proceeds.
- Review the approval documents from management for disposals.
- Recalculate the depreciation amount or perform a reasonableness test on the depreciation amount.
- Review the reasonableness of depreciation rate, and compare it with prior years, and with companies in the same industry.
- Select samples from the fixed assets register/list of fixed assets register and perform a physical inspection at the year end date (for existence).
- Select samples of assets and check the fixed assets register/list of fixed asset (for completeness).
- Review leasing agreements to see if there are any leased assets and consider whether the finance lease assets were properly accounted for.
- Check the casting of the columns.
- Agree the ending balance with the trial balance / general ledger.
- Consider whether the proper accounting policies are stated in the financial statements.

Answer 3(b)

The audit procedures are:

Physically inspect the vessel.

Search the Hong Kong Shipping Register.

Inspect the vessel registration document.

Answer 3(c)(i)

The issues with the PPE Schedule include:

- Calculation of depreciation for building, leasehold improvements and motor vehicles is not consistent with the accounting policy.
- Elimination of accumulated depreciation of disposals of motor vehicles is greater than the cost.
- Casting error for net book value of motor vehicles and leasehold improvements.

Answer 3(c)(ii)

The issues can be resolved by:

- Request amendments to the depreciation charge for the year.
- Ask management about the inconsistencies regarding the disposal of motor vehicles.
- Request amendments to casting errors.

Answer 4(a)

Employees are unlikely to support change unless the reasons behind it are explained. Any lack of knowledge and understanding of the change will create barriers to appreciating change in the information system.

Many people fear the uncertainty accompanying change to a new system and new technology. When facing the changes in system and procedures, people often fear for the loss of job security and the loss of respect or organisational power.

Employees who have had a bad experience with prior changes are more reluctant to cooperate when future changes occur.

Employees who sense a lack of top-management support for change wonder why they themselves should endorse it. Moreover, management and users may share different views about change in the system. The ability to advance and grow is more important to users, and increasing profits and reducing costs are more important to management.

Employees with emotional attachments to their duties or coworkers may not want to change if those elements are affected.

Resistance is often a reaction to the manner of instituting change rather than to change itself. For example, requests for information and interviews are distracting and place additional burdens on people; and these disturbances can create negative feelings toward the change that prompted them to occur.

The recipients of change may lack of or have inadequate skills to participate in the implementation of a new system. If the resources available to effect changes are insufficient, then the implementation of the new system may not be able to be implemented properly.

Answer 4(b)

Open communication helps prevent the spread of damaging rumors and misunderstandings. Managers and users should be fully informed of system changes and the reasons for such changes. This helps ensure that employees understand the company's efforts to improve the system, so that they are indeed key players in the company's future goals and plans.

Everyone affected by system development must maintain an attitude of trust and cooperation. If employees become hostile, it will be very difficult to change their attitude or to implement the system successfully.

Management must ensure that they will provide adequate resources for the system and motivate others to assist and cooperate with system development.

The organisation should provide assurances, as far as possible, regarding job security and that no major job losses or responsibility shifts will occur. The changeover from old to new systems can be achieved through relocation, attrition, and early retirement.

Users who will be affected by the system should participate in the planning and development of the new system by providing data, making suggestions, and helping in the decision making. Users who participate in development are more knowledgeable, better trained, and are more committed to using the new system.

If users are confused about or do not understand the system, then effective use or support cannot be obtained. Users are vitally interested in how system changes affect them personally. Relevant explanations should be presented that address users' concerns; for example, users should be told which alternatives are being used and how, and which alternatives are not being used and why. If users have unrealistic expectations of the capabilities and performance of the new system, then they may resist using it.

Management should emphasise challenging tasks that can be performed under the new system and that there will be greater job satisfaction and opportunities for career advancement. Users' performance standards and criteria should be reevaluated to ensure that they are satisfactory in view of changes brought about by the new system.

The system should be properly tested prior to implementation to minimise initial bad impressions from users who may resist the proposed changes.

Answer 4(c)

Users' satisfaction levels can be measured by the usability of the system, the timeliness of reports being produced by the system, and how well the system enhances job performance.

A high level of usage of a new system implies that the system has been accepted by users.

Success of a system implementation can be defined as having more benefit than cost; the use of other measures such as meeting budget or workflow improvements is also important.

Whether objectives of the system have been met should be reviewed at the post-implementation review. If the system does not meet its objectives, then the system is a failure.

Calls to the help desk will provide information concerning the user's ability to use the information system. A successful system will attract fewer calls to the help desk.

A high level of system down-time implies the system is not implemented properly.

Positive rating for the Information System department.

Answer 5(a)

The five assertions are occurrence, completeness, accuracy, cutoff and classification.

Occurrence — recorded receipts are for cash actually received by the company.

Completeness — existing cash receipts are recorded.

Accuracy — cash receipts are deposited and recorded in line with the amount received.

Cutoff — cash receipts are recorded at the correct dates / periods.

Classification — cash receipts transactions are properly classified.

Answer 5(b)

Test the mathematical accuracy of the bank reconciliations.

Agree the balance on the bank reconciliations with the balances on bank confirmations and the bank statements.

Agree the balance on the bank reconciliations with the cash accounts schedule and the general ledger.

Trace the amount of the deposits in transit to the cutoff bank statements and to the cashbook.

Trace a sample of unpresented cheques to the cutoff bank statements with the cutoff bank statements and subsequent bank statements.

Trace bank transfers for the last week of the financial year under review and the first week of the following year for proper approval.

Identify irregular items and obtain necessary explanations.

Answer 5(c)

Occurrence — observe segregation of duties and independent reconciliation of bank balances.

Completeness — observe immediate preparation of incoming cheque listing and endorsement of income cheques.

Accuracy — review periodic bank reconciliations prepared by an independent person.

Cutoff — examine evidence for the daily deposit of cash receipts and review bank reconciliations.

Classification — trace cash receipts to the cash receipt journal for proper classification and review the cash receipt journal for unusual items; inspect the signatures for proper approval.

* * * END OF EXAMINATION PAPER * * *

Examination Panelist's Report

Paper III
PBE Auditing and
Information Systems
(June 2010 Session)

(The main purpose of the following report is to summarise candidates' common weaknesses and make recommendations to help future candidates improve their performance in the examination.)

General Comments

The performance was not satisfactory as quite a number of candidates did not master the fundamental concepts of auditing such as different types of audit reports, differences between substantive procedures and test of control procedures, and differences between assertions for classes of transactions and assertions for account balances.

Many candidates failed to apply their knowledge to real-life issues in order to demonstrate the expected level of analytical thinking. In particular, they did not know how to apply analytical procedures for the facts provided.

Quite a number of candidates wrote illegibly and made spelling and grammatical mistakes. Illegible handwriting and poor English inevitably affected the assessment.

Specific Comments

Section A – Compulsory Questions

Question 1 – 40 marks

A case of a practical scenario for which candidates were asked to apply their knowledge to practical auditing and ethical issues. Many candidates did not know the responsibilities and obligations of auditors for the acceptance of new engagements as well as responsibilities of auditors regarding going concern assumptions. In addition, many candidates were unable to distinguish the role of auditors and clients for inventory count. Also, many candidates were unable to identify facts for the assessment of risk of material misstatement of the financial statements.

Part (a) & (b), some candidates did not read the requirements carefully; they listed out the responsibilities of the auditors regarding audit planning instead of the responsibilities and obligations of auditors for the acceptance of new engagements. Part (c), most candidates did not know how the going concern assumption affects the financial statements and the responsibilities of auditors regarding going concern assumptions. Part (d), many candidates were unable to explain why the written representation can not achieve the objectives and purposes of attending the inventory count, and some candidate were unable to distinguish the role of auditors and clients for inventory count. Part (e), most candidates can not explain the importance of inventories in the financial statements. Part (f), many candidates cannot distinguish the differences in reliability of the two kinds of audit evidence. Part (g), most candidates did not know what the risk of material misstatement at the financial statement level is and how to assess it, and they were unable to identify the issues from the case. Part (h), most of the candidates who attempted this part scored satisfactorily. However, some candidates were unable to distinguish different kinds of threats to independence and simply listed out all of them.

Section B – Optional Questions

Question 2 – 20 marks

This question examined candidates' understanding of further audit procedures for subsequent events and the application of different kinds of audit reports.

Part (a), some candidates who attempted this part scored satisfactorily, but quite a number of candidates did not know the general audit procedures for subsequent events. Part (b), most candidates answered satisfactorily, but some students only discussed different types of audit reports instead of providing specific audit procedures. Part (c) most candidates were unable to identify the going concern issue and state relevant assumptions for different types of audit reports.

Question 3 – 20 marks

This question examined candidates' knowledge of the auditing of fixed assets and application of analytical procedures for identifying audit issues.

Part (a) & (b), most of the candidates who attempted these parts scored satisfactorily. Part (c), most candidates did not read the question carefully and gave irrelevant answers, they did not recalculate the figures and were unable to identify the issues from the schedule.

Question 4 – 20 marks

This question examined candidates' knowledge of change management regarding system implementation.

Part (a) & (b), most of the candidates who attempted these parts scored satisfactorily. Part (c), most candidates who attempted this part scored satisfactorily, however, a few candidates discussed how to implement the system instead of the measures of success.

Question 5 – 20 marks

This question examined candidates' knowledge of the auditing of cash receipts and cash balance.

Part (a), some candidates were unable to distinguish the assertions for classes of transactions and assertions for account balances. Part (b), some candidates discussed the general audit procedures for cash at bank instead of the specific audit procedures to be performed on the bank reconciliation statements. Part (c), most candidates were unable to explain the test of control procedures for cash receipts, they mixed up substantive procedures with test of control procedures.

* * * END OF EXAMINATION PANELIST'S REPORT * * *