



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

Professional Bridging Examination

June 2012 Session

Paper III
PBE Auditing and Information
Systems

Questions & Answers
Booklet

The suggested answers are longer than what candidates are expected to give in the examination. The purpose of the suggested answers is meant to help candidates in their revision and learning. The suggested answers may not contain all the correct points and candidates should note that credit will be awarded for valid answers which may not be fully covered in the suggested answers.

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Published by Hong Kong Institute of Accredited Accounting Technicians Limited
27/F, Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong

September 2012



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 2012 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 in 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

JF Limited ("JFL"), a private company engaged in the wholesaling of Japanese food products, is owned and run by two directors, each with 20 years experience in the industry. The company supplies raw seafood, high quality beef, noodles, rice, snacks, as well as seasonings to Japanese restaurants in Hong Kong. On 1 July 2011, Joseph Fan, a partner of an 8-partner firm, ABC & Co, was approached by JFL to replace the previous auditor, XYZ & Co. Bill Chau, one of the directors of JFL, told Joseph that XYZ & Co had resigned as the auditor of JFL due to a shortage of resources to carry out the audit for JFL for the year ended 30 June 2011 within a specified time.

Bill Chau asked ABC & Co to commence the audit immediately because the audited financial statements had to be submitted to their bank before 15 August 2011 for the purpose of renewing their bank loan and banking facilities. In past years, the company maintained a current ratio of approximately 1 and it had not had any problem renewing its bank loan and banking facilities.

JFL orders goods from several suppliers in Japan. The suppliers deliver the goods to a warehouse owned by JFL. Based on the draft financial statements provided by JFL, the amount of inventory held at the year end date was five times that of the previous year. Bill Chau explained that the increase in the inventory level was mainly due to the Tsunami and subsequent nuclear radiation leaks in Japan caused by an earthquake in March 2011. Restaurants ordered less goods right after the Tsunami, but since JFL was committed to a minimum amount of annual purchases from several Japanese suppliers, this resulted in a piling up of inventory.

It was also noted that the amount of outstanding trade receivables was twice that of the previous year. The payments from the receivables were much slower due to the sudden downturn of business in the Japanese food restaurants in Hong Kong. As a result, the amount of outstanding trade payables increased significantly as the company became short of cash. The availability of bank loan and banking facilities has therefore become crucial for the survival of the business.

Bill Chau advised that the company maintained a good computerised system which was purchased from a reputable software house company and the system had been used for several years. Due to the urgency of the audited financial statements for the renewal of bank loan and banking facilities, Bill Chau suggested to the auditors not to carry out the inventory count as the year end date had already passed and that it was therefore impractical to do so. In addition, he suggested that the audit fee be a fixed fee plus some shares in JFL, contingent on the success of the renewal of bank loan and banking facilities.

At the end of the meeting, Joseph Fan was concerned that a going concern assumption was appropriate for the preparation of JFL's financial statements.

Question 1 (40 marks – approximately 72 minutes)

- (a) Should the auditor 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)
- (b) HKSA 570 (Clarified) includes examples of events or conditions that may cast doubt on the going concern assumption. What are the possible indicators in this case that may cast doubt on the going concern assumption?
(5 marks)
- (c) Assess (high, medium or low), with reasons, the inherent risk of material misstatement of the valuation of JFL's inventory.
(3 marks)
- (d) Assess (high, medium or low), with reasons, the inherent risk of material misstatement of the valuation of JFL's trade receivables.
(3 marks)
- (e) According to the audit risk model, both inherent risk and control risk should be considered for determining the nature of further audit procedures and the audit approach. For the inherent risk of valuation of inventory discussed in part (c), what control activities may exist to reduce the risks of material misstatement?
(5 marks)
- (f) According to the audit risk model, both the inherent risk and control risk should be considered for determining the nature of further audit procedures and the audit approach. For the inherent risk of the valuation of trade receivables discussed in part (d), what control activities may exist to reduce the risks of material misstatement?
(4 marks)
- (g) JFL has a computerized system to maintain its inventory records; what is the information that may be used by the directors to estimate the impairment of inventory?
(5 marks)
- (h) If JFL agreed to carry out an inventory count on a day in July 2011, what are the matters relevant in planning attendance at a physical inventory counting?
(7 marks)
- (i) Taking into account that the inventory count is to be held in July, list out the additional substantive audit procedures to be performed to verify the existence of inventory as of year end date.
(3 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)

An audit firm, ABC & Co., was approached by a company, S & P Limited, to replace the previous auditor. S & P Limited is engaged in the fashion business. S & P Limited purchase clothes from various suppliers and sells clothes to the public. In order to provide greater variety of products, they purchase clothes and accessories from different suppliers. S & P Limited has shops in more than 50 locations in Hong Kong and mainland China. When negotiating the audit fee, the management of the company indicated that they have effective internal control and therefore the audit approach can be a less substantive one, even though there are numerous sales and purchase transactions occurred in a year.

Required:

- (a) According to HKSA210 (Clarified), auditors shall take steps in order to establish whether preconditions are present before accepting a new engagement. Identify the steps.
(6 marks)
- (b) Before accepting an engagement, auditors would normally obtain a preliminary knowledge of the industry and of the background of the entity. What are the sources for acquiring knowledge of a client's business and industry?
(6 marks)
- (c) What is internal control?
(3 marks)
- (d) What are the five major components of internal control?
(5 marks)

Question 3 (20 marks – approximately 36 minutes)

A Company, Body Health Limited ("BHL") with 80 shops and more than 200 staff in Hong Kong engages in selling ready-to-serve soup. The soup is provided by another related company. Customers can buy the soup at the original price or buy coupons to redeem the soup. It sells coupons with an expiry date of one year to customers in order to give a discount to loyal customers. For example, coupons sold in January are stamped with an expiry date of 31 December and coupons sold in February are stamped with an expiry date of 31 January. The management is determined to record all the coupon sales as sales for the year in which the coupons are sold and indicated that they will not change this accounting method.

Required:

- (a) HKSA315 (Clarified) requires the auditor to obtain an understanding of the entity and its environment, including the entity's internal control. An understanding of the nature of entity enables the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements. What are the key matters of BHL's business operation that the auditor may consider when obtaining an understanding of the nature of business of BHL?

(6 marks)
- (b) What is the impact on the financial statements of recording all the coupon sales as sales for the year in which the coupons are sold?

(4 marks)
- (c) What information should the auditor look for in order to quantify the effect of the misstatements?

(4 marks)
- (d) If the management insists on not making any changes to their financial statements, what are the possible audit opinions to be issued?

(6 marks)

Question 4 (20 marks – approximately 36 minutes)

The audit firm, ABC & Co provides an auditing service to a company, Sun House Limited ("SHL"). The principal activity of the company is the manufacturing and sale of High Definition Televisions ("HDTV"). It sells HDTV to retailers. The company provides a free one-year warranty with all items sold. In addition, customers can purchase extended warranties via the retailers. The retailers charge a commission for selling the extended warranties for SHL.

Required:

- (a) For the sales of HDTVs, what are the five assertions for this class of transactions? Briefly explain.
(10 marks)
- (b) What are the specific substantive procedures for the valuation assertion of a provision for warranties?
(5 marks)
- (c) What are the specific substantive procedures for the accuracy assertion of commission expenses?
(5 marks)

Question 5 (20 marks – approximately 36 minutes)

Audit sampling deals with the auditor's use of statistical and non-statistical sampling when designing and selecting the audit sample, performing tests of controls and tests of details, and evaluating the results from the sample. When using audit sampling, sample size is dependent on various factors.

Required:

- (a) Explain sampling risk in the case of test of controls and in the case of test of details. (5 marks)
- (b) How does each of the following factors influence the sample size for test of controls?
- (i) An increase in the extent to which the auditor's risk assessment takes into account relevant controls.
 - (ii) An increase in the expected rate of deviation of the population to be tested. (6 marks)
- (c) How does each of the following factors influence the sample size for test of details?
- (i) An increase in the auditor's assessment of the risk of material misstatement.
 - (ii) An increase in the use of other substantive procedures directed at the same assertion.
 - (iii) An increase in the auditor's desired level of assurance that tolerable misstatement is not exceeded by actual misstatement in the population. (9 marks)

* * * END OF EXAMINATION PAPER * * *

Answers

Paper III
PBE Auditing and
Information Systems
(June 2012 Session)

SECTION A (COMPULSORY) (Total: 40 marks)

Answer 1(a)

Shares in JFL is a contingent fee component in the proposed audit fee. Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm. In this case, the contingent fee component, shares in JFL, is based on the success of the renewal of bank loan and banking facilities.

The contingent fee charged by ABC & Co. in respect of the audit engagement creates a self-interest threat that is so significant that no safeguards could reduce the threat to an acceptable level.

Accordingly, ABC & Co shall not enter into any fee arrangement with JFL for the assurance engagement in which a component of the fee is contingent on the result of the assurance work or on items that are the subject matter of the assurance engagement. As the renewal of the bank loan and banking facilities is based on financial statements which are the subject matter information of the assurance engagement, ABC & Co should not accept such a fee arrangement.

Answer 1(b)

The possible indicators are as follows:

As the increase in the irrecoverability of the amount of accounts receivable will deteriorate the current ratio, the company may have a net current liability position.

The company has a purchase commitment, but the company was not able to sell the goods purchased which was indicated by the piling up of goods. Consequently, the company may not be able to pay the creditors on due dates.

The company only maintained the current ratio of 1 in the past. The current ratio may fall below 1 due to the possible impairment of piled up inventory and possible impairment of trade receivables.

The decrease in market demand of their goods. The change in food preference of the public caused by the Earthquake and subsequent radiation leaks in Japan.

The inability to renew its bank loan and banking facilities caused by the poor financial position of the company.

(Other relevant answers are acceptable)

Answer 1(c)

Inventories should be stated at the lower of cost and net realizable value. When the inventories' realizable value is lower than the cost, the company has to write down the value of inventory. The amount to be written down is subject to management's estimation. The assessment of risk of material misstatement of the inventory at assertion level for valuation should be high as so much inventory has piled up in the company and the Japanese food market has been subject to high uncertainty. The origin of these food products may be a factor of concern to the consumers which will affect the demand for the products in the future, making the sales value hard to determine.

Answer 1(d)

Trade receivables should be stated at amortised cost less impairment. The amount of impairment is subject to management's estimation. The assessment of risk of material misstatement of the trade receivables at assertion level for valuation should be high as so many customers of JFL delay payment due to the critical downturn of business of Japanese food restaurants and the potential closing down of restaurants, making the impairment amount hard to determine.

Answer 1(e)

Possible control activities are as follows:

The company should review the inventory reports regularly before ordering goods to avoid keeping excess inventory.

The company should conduct an inventory count regularly and reconcile the counted quantities with those of the accounting records. Also, the company should ensure that the goods are delivered to customers on a First in First out basis to lower the chance of having goods expire in the warehouse.

The management should regularly review inventory reports to identify slow-moving items and revise their selling strategy to reduce the loss caused by the expiry of goods.

The management should review the inventory reports to identify the expired goods for write-off.

(Other relevant answers are acceptable)

Answer 1(f)

Possible control activities are as follows:

The management should review the aging analysis of trade receivables to determine the amount of impairment. Policies should be set by the management for the staff to follow for the chasing of long-outstanding amounts.

Credit limits should be set for each customer. There should be approval for the credit terms granted to new customers and regular review of credit limits of existing customers by the senior management.

Approval of sales transactions to ensure the credit limit for each customer is not exceeded.

(Other relevant answers are acceptable)

Answer 1(g)

The quantity of each kind of inventory at the year end date.

Unit cost of each kind of inventory for each batch of purchases as well as the average cost if the company adopted the weighted average cost method.

Subsequent selling price of each kind of inventory.

The expiry dates of different batches of each kind of inventory.

The subsequent sales quantity of each kind of inventory.

Answer 1(h)

The matters relevant in planning attendance at physical inventory counting are as follows:

The risks of material misstatement related to inventory.

The nature of the internal control related to inventory.

Whether adequate procedures are established by the management and proper management instructions issued for physical inventory counting.

The timing of physical inventory counting.

Whether the entity maintains a perpetual inventory system.

The location at which inventory is held, including the materiality of the inventory and the risks of material misstatement and the size of the warehouse, in deciding the number of audit staff to attend the inventory count.

Whether the assistance of an auditor's expert is needed.

Answer 1(i)

Select samples from the inventory list (with quantity and value) as at the inventory count date and agree with the count sheets list (with quantity only) and vice versa.

Check the inventory movements between year-end date and inventory count date against goods delivery notes and invoices issued.

Check the inventory movements between year-end date and inventory count date against goods received notes and invoices received.

* * * END OF SECTION A * * *

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

Answer 2(a)

According to HKSA210 (Clarified), in order to establish whether the preconditions for an audit are present, the auditor shall:

Determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable; and

Obtain the agreement of management that it acknowledges and understands its responsibility:

- For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation;
- For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- To provide the auditor with:
 - (a) Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - (b) Additional information that the auditor may request from management for the purpose of the audit; and
 - (c) Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

Answer 2(b)

The sources are :

1. Discussion with the management of the entity.
2. Discussion with the internal auditor and review of internal audit reports.
3. Discussion with specialists and experts of the industry.
4. Publications related to the industry.
5. Legislation and Regulations of the industry.
6. Visits to the entity's premises and plant facilities.
7. Internal documents provided by the management (such as business plans and strategies), records, and internal control manuals.

Answer 2(c)

Internal control is the process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The term controls refers to any aspects of one or more of the components of internal control.

Answer 2(d)

The five major components are :

Control environment;

Entity's risk assessment process;

Information system;

Control activities; and

Monitoring of controls.

Answer 3(a)

Nature of revenue source - the company is a retailing company which sells ready-to-serve soup to customers. There are many cash receipt transactions.

Key customers - large number of customers across the whole population.

Products - the company has a high volume of transactions from selling soup and is facing competition. Ready-to-serve soup is a perishable product.

Related party transaction - the product is supplied by a related party.

Geographic dispersion - all the shops are located in Hong Kong.

Employees - the company has over 200 employees.

Coupon sales - the custody of the coupons.

Answer 3(b)

Profit is misstated resulting from a misstated sales amount. The sales may be understated or overstated as some revenue of this year was included last year (coupon sold last year but not redeemed last year) and some unearned revenue (coupon sold this year but not yet redeemed) was recognized as revenue in this year. Also, the liability, unearned revenue (deferred income), is not included in the balance sheet.

Answer 3(c)

The information is as follows:

The amount of coupons sold during last year and redeemed during this year.

The amount of coupons sold during this year and not yet redeemed.

The amount of coupons sold during last year and expired during this year.

Answer 3(d)

In this case, the management has not applied the appropriate accounting policies consistently with the financial reporting framework. Depending on the materiality of the misstatements, the possible audit opinions are as follows:

Unmodified opinion - The opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. In other words, the misstatement is not material at all.

Qualified opinion - The auditor shall express a qualified opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements.

Adverse Opinion - The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Answer 4(a)

Occurrence - sales transactions that have been recorded have occurred and pertained to the entity.

Completeness - all the sales transactions that should have been recorded have been recorded.

Accuracy - amounts relating to recorded transactions have been recorded appropriately.

Cut off - sales transactions have been recorded in the correct accounting period.

Classification - transactions have been recorded properly in the financial statements.

Answer 4(b)

The possible substantive procedures are as follows:

Compare the ratios of provisions to sales for relevant years to those ratios of last year.

Compare the ratios of provisions to warranty income for relevant years to those ratios of last year.

Discuss with the management the underlying assumptions for the amount of provision.

Recalculate the amount of the provision based on management's assumptions and agree to the recorded amount.

Compare prior years' provisions and the subsequent actual incurred amount to test the accuracy of the management's estimation.

Review after year-end claims, whether these truly reflect the accuracy of management's estimation.

(Other relevant answers are acceptable)

Answer 4(c)

The possible substantive procedures are as follows:

Compare the ratio of commission expense and warranty income with the ratio of last year.

Review the warranty commission contracts with different retailers to estimate the average commission rate.

Estimate the amount of expenses using the average commission rate and compare with the recorded expenses to check their reasonableness.

Examination of supporting documents, e.g., credit notes to retailers and verify whether the amounts are properly recorded.

Recalculate the amounts of commission expenses in accordance with the contracted commission rate of selected contracts.

(Other relevant answers are acceptable)

Answer 5(a)

Sampling risk – The risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure. Sampling risk can lead to two types of erroneous conclusion:

In the case of a test of controls, that controls are more effective than they actually are, or in the case of a test of details, that a material misstatement does not exist when in fact it does. The auditor is primarily concerned with this type of erroneous conclusion because it affects audit effectiveness and is more likely to lead to an inappropriate audit opinion.

In the case of a test of controls, that controls are less effective than they actually are, or in the case of a test of details, that a material misstatement exists when in fact it does not. This type of erroneous conclusion affects audit efficiency as it would usually lead to additional work to establish that initial conclusions were incorrect.

Answer 5(b)

- (i) The increase in the extent to which the auditor's risk assessment will take into account the operating effectiveness of relevant controls means that if the auditor intends to obtain more assurance from the operating effectiveness of controls, a larger sample size needs to be examined so that the auditor can reduce the chance of forming a wrong risk assessment.
- (ii) The higher the expected rate of deviation, the larger the sample size needs to be so that the auditor is in a position to make a reasonable estimate of the actual rate of deviation.

Answer 5(c)

- (i) The higher the auditor's assessment of the risk of material misstatement, the larger the sample size needs to be. The auditor's assessment of the risk of material misstatement is affected by inherent risk and control risk. For example, if the auditor does not perform tests of controls, the auditor's risk assessment cannot be reduced for the effective operation of internal controls with respect to the particular assertion. Therefore, in order to reduce audit risk to an acceptably low level, the auditor needs a low detection risk and will rely more on substantive procedures. The more audit evidence that is obtained from tests of details (that is, the lower the detection risk), the larger the sample size will need to be.
- (ii) The more the auditor is relying on other substantive procedures (tests of details or substantive analytical procedures) to reduce to an acceptable level the detection risk regarding a particular population, the less assurance the auditor will require from sampling and, therefore, the smaller the sample size can be.
- (iii) The greater the level of assurance the auditor requires that the results of the sample are in fact indicative of the actual amount of misstatement in the population, the larger the sample size needs to be.

* * * END OF EXAMINATION PAPER * * *

Examination Panelist's Report

Paper III
PBE Auditing and
Information Systems
(June 2012 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 the application of audit sampling, different types of audit reports, preconditions for accepting an audit engagement, planning of inventory count, major components of internal control, and different types of audit reports.

Many candidates failed to apply their knowledge to real-life issues in order to demonstrate the expected level of analytical thinking. In particular, they put down the relevant materials that they had studied without relating the contents to the issues identified.

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

This was a case of a practical scenario. Candidates were asked to apply their knowledge to practical auditing and information system issues. Many candidates were not able to link up their knowledge of information systems and auditing which required analytical thinking.

Part (a), most of the candidates who attempted this part scored satisfactorily. Part (b), many candidates did not read the question carefully; they provided the general event and conditions that may cast doubt on the going concern assumption instead of the indicators identified from the case. Parts (c) & (d), most of the candidates who attempted these parts scored satisfactorily. However, a few candidates were not able to justify their risk assessment. Parts (e) & (f), many candidates mixed up control activities and substantive procedures. Part (g), most of the candidates who attempted this part scored satisfactorily. Part (h), most candidates provided general audit procedures for attending an inventory count instead of the matters to consider for planning the inventory count. Part (i), most of the candidates who attempted this part scored satisfactorily. However, a few candidates were not able to apply the rollback procedures for this situation.

Section B – Optional Questions

Question 2 – 20 marks

This question examined candidates' understanding of the pre-conditions for accepting an audit engagement, sources for acquiring industry knowledge and internal control.

Part (a), many candidates mixed up the pre-conditions and procedures for accepting an audit engagement. Most candidates who attempted this part provided the procedures for accepting an audit engagement instead of the pre-conditions. Part (b), many candidates who attempted this part scored satisfactorily. However, some candidates listed out the key matters of the client's operation that are relevant to the auditor instead of the sources from which the auditor can acquire this knowledge. Part (c), most candidates who attempted this part scored satisfactorily. Part (d), most candidates could not provide the relevant answer, they provided the elements of control activities instead of the five components of internal control.

Question 3 – 20 marks

This question examined candidates' application of knowledge to audit a business with coupon sales.

Part (a), candidates' performance was good, most were able to identify the key matters regarding BHL's operation that are relevant to the auditor. Part (b), most of the candidates who attempted this part scored satisfactorily. However, some candidates who did not have a good understanding of the accounting concepts gave some irrelevant answers. Part (c), many students who did not have a good understanding of the accounting concepts were not able to identify the relevant information for the auditor to quantify the effect of the misstatement. Part (d), some of the candidates who attempted this part scored satisfactorily, but some candidates were not able to distinguish between different types of audit opinion.

Question 4 – 20 marks

This question examined candidates' application of knowledge to audit a business which sells HDTVs with a warranty.

Part (a), most candidates who attempted this part scored satisfactorily, but quite a number of candidates did not know the differences between the assertions and therefore they provided assertions for the account balance instead of the assertions for a class of transaction. Part (b), a few candidates who attempted this part scored satisfactorily, most candidates could not provide relevant answers for this part as they were not aware that the warranty provision is estimated by the management. Part (c), most candidates who attempted this part scored satisfactorily, but quite a number of candidates provided irrelevant substantive procedures. They provided substantive procedures for other assertions instead of the accuracy assertion.

Question 5 – 20 marks

This question examined candidates' knowledge of audit sampling.

This was the least popular question. A minority of those who attempted this question performed satisfactorily, but most candidates did not perform well as they did not have a good understanding of the concepts behind sampling.

Conclusion

The performance was not satisfactory as quite a number of candidates had not mastered the fundamental concepts of auditing well and were not able to apply their knowledge to practical scenarios. In order to perform better in this practical subject, students should understand the rationale behind the concepts instead of memorising the contents of the study materials.

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