

**AUDIT THEORY– PAPER 7****1.0 GENERAL COMMENTS****1.1 General Performance**

- Performance was below average; the pass rate was 27.94%.down from 35.98% for the December examinations diet.
- There was clear evidence that candidates were not well prepared as compared to those who sat in December 2010, leading to poorer performance, especially in Section B.
- Question 5 (which tested on elements of auditor's report in an audit conducted in accordance with International Standards on Auditing and types of modified report) was attempted by the majority of the candidates scoring above the average marks.

**2.0 PERFORMANCE IN INDIVIDUAL QUESTIONS****2.1 Question 1**

- This was a set of 20 multiple-choice questions.
- Performance in these questions was encouraging; the majority of candidates scored average marks.

**2.2 Question 2**

- This was a compulsory scenario question of a company that submitted the accounts for audit with figures in the financial statements which could not be traced back to the trial balance. The accounts had been prepared by the accountant who used the balances that were extracted by the accounts assistant. The company had also changed its accounting policies in the previous year.
- The question required candidates to: (a) describe the audit work to be carried out on the comparative information and the closing trial balance, (b) explain the circumstances under which the Companies Act requires auditors to report on their clients' affairs, (c) explain the advantages of computer audit programs in the audit of the company, and (d) clearly state circumstances that may lead to restatement of comparative amounts for the prior periods in the financial statements.
- This was a practical question in which candidates were expected to perform well but the majority failed due to ill preparation.
- Performance was therefore generally far below average since most candidates failed to address the requirements of the question.
- Parts (b) and (c) were fairly attempted but part (a) was the worst with candidates explaining the actual audit process instead of the actual work to be done on the opening and closing trial balances.

**2.3 Question 3**

- Required candidates to: (a) briefly describe the preliminary work one would perform before commencing the detailed field audit, (b) describe the common interests held by both the internal and external auditors in the execution of their duties, and (c) describe the audit tests that one would carry out on the named company's bank reconciliation statements.
- The question was averagely performed; most candidates failed to address the preliminary work to be performed before commencement of the audit and instead mixed it up with the work to be done before an auditor accepts appointment of a new audit client.

**2.4 Question 4**

- Required candidates to: (a) briefly describe what should be contained in audit working papers, (b) clearly describe the advantages and disadvantages of using standardised audit working papers, and (c) explain what is meant by self interest threats in auditing
- The question was about working papers and many candidates showed that they understood the contents, although they failed to classify them into different categories.
- This question was fairly attempted and most candidates who attempted it passed it with average marks.

**2.5 Question 5**

- The question was about the auditor's report and the opinions in the report.
- Required candidates to : (a) (i) explain the concept of true and fair view, and (ii) facts that the auditor should consider when forming an opinion that financial statements show a true and fair view; (b) outline the elements of the auditor's report in an audit conducted in accordance with International Standards on Auditing; and (c) briefly explain the three types of modified opinion. This was attempted by majority of the candidates and it was well answered
- Candidates displayed their understanding of the contents of the audit reports and the different types of opinions which the auditors give in their report.