

Auditing – Paper D11

2006

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Seminar Objectives

1. PLANNING

- COURSE MATERIAL
- SAMPLE PLAN

2. PREPARATION

- COURSE COVERAGE
- HOW TO IMPROVE REVISION TIME
- IMPORTANCE OF CONCEPTS
- MOCK EXAMINATIONS

3. ATTEMPTING THE PAPER

- EXAMINATION TECHNIQUES
- COMMONLY MADE MISTAKES
- COPING WITH NERVES

Section 1 – PLANNING



Course Material

1. Handbook of International Standards on Auditing and Assurance pronouncements
2. CA study text
3. “Practical Auditing” by Javed Zuberi

Note: Auditing standards relating to Computer Information System (CIS) Environment and Computer Assisted Audit Techniques (CAATs) have been repealed by the IFAC.

Course Material

- Auditing is a practical subject, and can be fully understood when it has been practically performed.
- Students should ask their teacher to explain them the practical audit cycle, and current practices in audit firm. The teachers should also be asked to provide the following to the students:
 - ✓ Sample modified audit reports
 - ✓ Sample working papers
 - ✓ Sample audit planning memorandum
 - ✓ Sample engagement letter
 - ✓ Sample management letter
 - ✓ Sample representation letter

SPRING 2006 ATTEMPT

QUESTION NUMBER & MARKS	QUESTION	IMPORTANT POINTS
QS 12 MARKS – 4	While performing audit of Mehran Chemicals Limited you used the work of an expert for valuation of work-in-process and raw material inventory. Expert's report shows substantial differences in valuation of both. You have decided to qualify your report on the basis of the expert's opinion. Narrate the important matters that you should ensure while implementing the above decision.	Students did not focus on the point that a decision to use the expert report has already been made. Instead, they focussed on the procedures for verification of expert's work.

FACTORS BE CONSIDERED WHEN PLANNING

The sort of factors you should consider include:

- family commitments, relationships, friendships
- possible illness
- not understanding material when you come to look at it
- your need for leisure activities, and fun
- You also need to build in time for things which, at the moment, you can't anticipate.

Monitoring your plan. Check your plan regularly to see how well you are doing. You may need to amend your plan, eg if something unexpected happens or if some revision takes longer than expected.

A sample plan

S. No.	Name of topic	Source of coverage	Number of budgeted hours	Number of actual hours spent	Completion status	Revision 1	Revision 2	Past papers
2	Objectives and operating procedures of IFAC							
a	Role of IFAC and IAPC	ISAs	1	1.5	✓	✓	✓	✓
b	An introduction to ISAs	ISAs	0.5	1	✓	✓	✓	
c	Authority attaching to ISAs	ISAs	1	0.5	✓			
d	Working procedures of IAPC	ISAs	2					

Section 2 - PREPARATION



Course coverage

SYLLABUS CONTENT AREA	WEIGHTAGE
1. Principles and objectives of auditing 2. Objectives and operating procedures of IFAC 3. Legal and professional considerations 4. Client selection procedures	30
5. Audit evaluation and planning 6. Collection of evidence and its documentation 7. Performance of an audit	50
8. Completion stages of an audit 9. The auditors' report on financial statements	20

How to improve your revision time?

Last day revision is extremely important. One way to have a complete revision on the day before the exam is to gradually reduce your revision time.

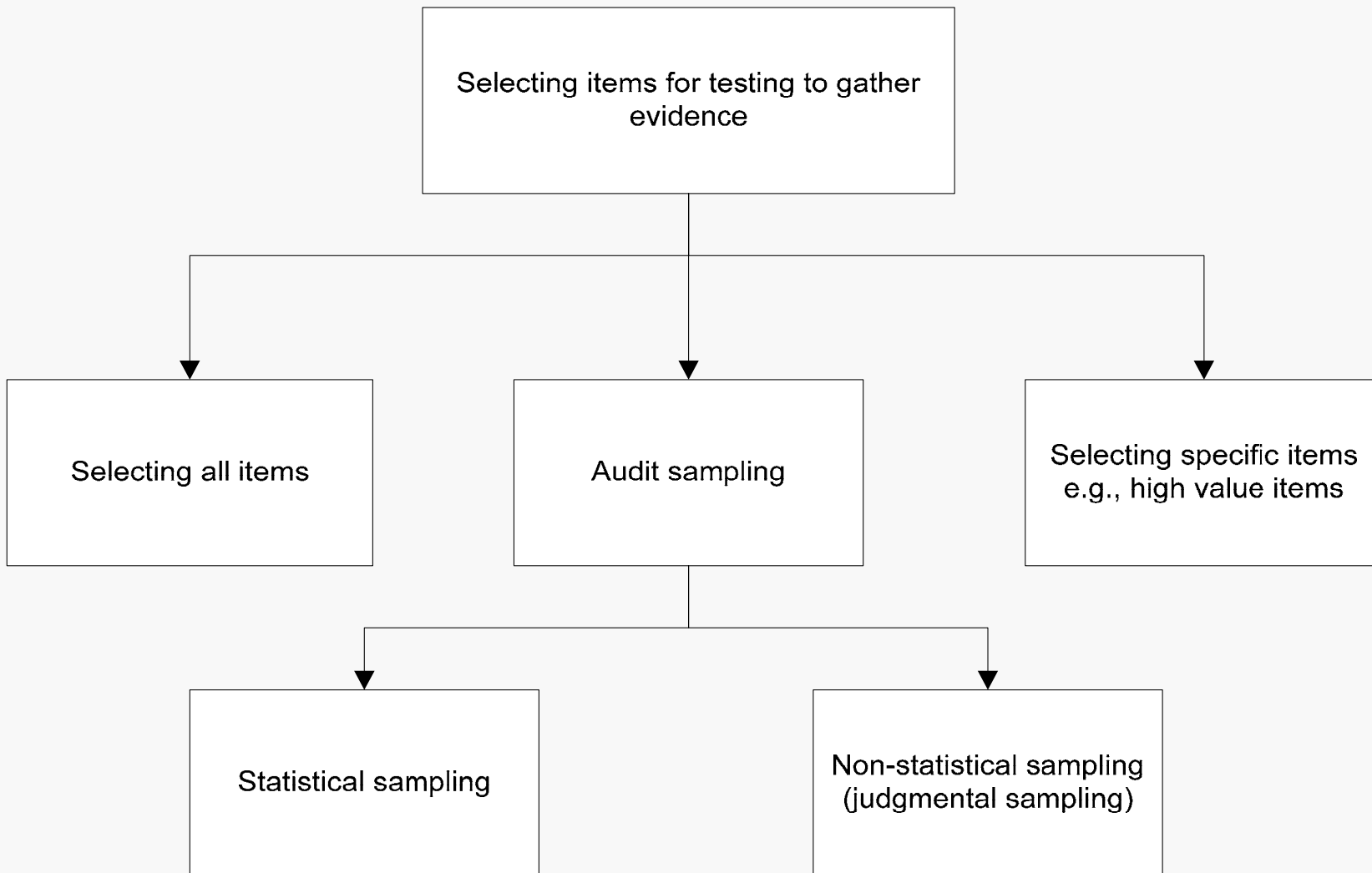
Revision time can be reduced through the use of following:

- Summarising key points
- Using flowcharts

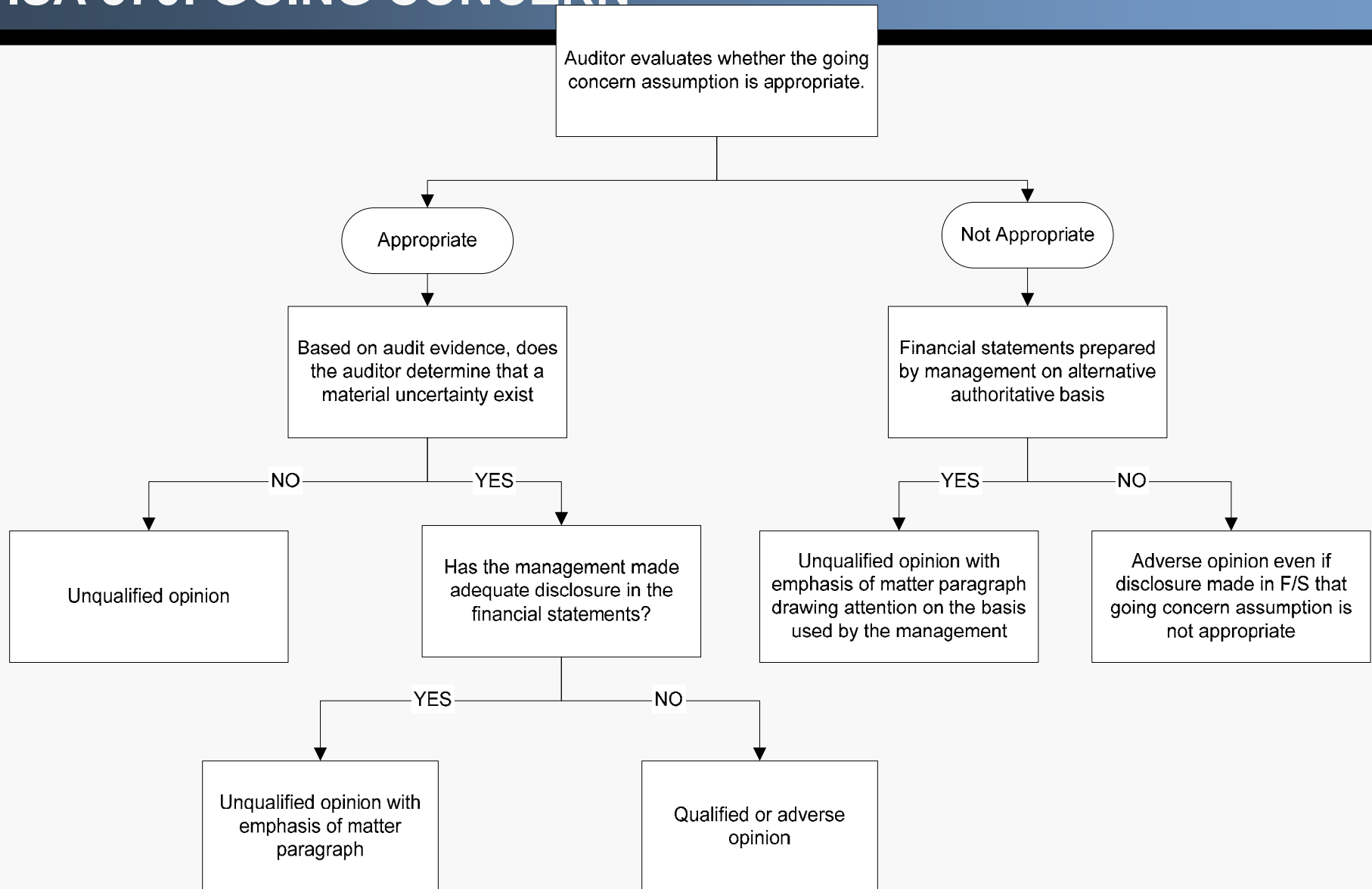
SUMMARISING KEY POINTS

- Most of the student make long notes in the form of paragraphs, which they find difficult to learn and retain
- Notes should ideally be in the form of pointers which are easier to remember and quicker to revise
- The examiner finds it easier to allocate marks when they are in the form of pointers.

ISA 530: AUDIT SAMPLING AND OTHER MEANS OF TESTING



ISA 570: GOING CONCERN



FOCUS ON CONCEPTS

Most of the students do not focus on concepts, and instead try to rote learn them.

If you do not focus on concepts, you would not be able to understand the interrelationship within and across the Auditing standards.

Let us discuss a very fundamental concept of auditing which is the **NATURE, TIMING AND EXTENT OF AUDIT PROCEDURES.**

Nature, Timing & Extent of Audit Procedures..

NATURE – refers to the purpose of audit procedures. Audit procedures can be classified into the following with respect to their nature:

- **Risk assessment procedures** for obtaining an understanding of the entity and its environment.
- **Tests of controls** for testing the effectiveness of controls in preventing, detecting or correcting material misstatements.
- **Substantive procedures** for detecting material misstatement at assertion level.

Nature, Timing & Extent of Audit Procedures..

TIMING – refers to when audit procedures are performed or the period or date at which the audit evidence applies.

EXTENT– refers to the quantity of a specific audit procedure to be performed, for example, a sample size or the number of observations of a control activity.

Audit procedure:

Select ten highest debtors from total debtor balances outstanding at the year-end, and send positive confirmations to them.

Nature, Timing & Extent of Audit Procedures..

Direction of testing

- Another area which students should keep in mind when constructing an audit procedure is the direction of testing.
- For example, if you are testing for the overstatement of accounts payable, your population would be the creditors listing.
- However, if you are testing for the understatement of accounts payable, your population could be subsequent disbursements, but not the listing.

Nature, Timing & Extent of Audit Procedures..

Relationship of assertion with the selection of audit procedures

The students should focus on the assertion which they are verifying when selecting the audit procedure.

e.g., the debtor confirmation procedure is used for verifying the existence and rights & obligations assertions, but not the completeness and valuation assertions. Verifying the ageing schedule could verify the valuation assertion.

SPRING 2006 ATTEMPT

QUESTION NUMBER & MARKS	QUESTION	IMPORTANT POINTS
QS 7 MARKS – 3	Indus Limited has a policy to change their auditors every year. Explain whether the auditors of Indus Limited should prepare proper working papers, despite the fact that they would not be appointed for the next term.	Some students even mentioned that working papers were not required. Many did not mention the fact that working papers are required to support the conclusions and audit opinion.

MOCK EXAMINATIONS

- **ATLEAST 10-15 DAYS BEFORE THE END OF THE LEAVE CONDUCT REAL TIME MOCK EXAMINATIONS**
- **SIMULATING EXAM CONDITIONS**
- **SELF ASSESSMENT**
- **IDENTIFYING WEAK AREAS**
- **WORKING ON WEAK AREAS**
- **GOING THROUGH THE EXAMINER COMMENTS**
- **ACTUALLY ATTEMPTING THE QUESTIONS AND NOT JUST GOING THROUGH THE SOLUTIONS**

SELF ASSESSMENT

According to Cadogan (1990), this appraisal of performance is best directed by responding to five questions related to the marks gained:

1. What was your total mark?
2. How many marks were lost because you did not understand the theory?
3. How many marks did you lose as a result of simple errors in your responses?
4. How many marks were lost because you could not interpret a question or you answered a different question from the one you were asked?
5. How many marks were lost because you ran out of time?

***Section 3 –
ATTEMPTING THE PAPER***



EXAMINATION TECHNIQUES

- **Controlling the anxiety is the key**
- **If the paper is difficult it is same for all the students and therefore the difficult questions in the paper do not determine your success.**
- **However if you get the easy questions wrong you will loose easy marks and therefore you will not be able to pass.**

EXAMINATION TECHNIQUES

- Arrive early at the exam to avoid panic. Will it help to chat to others while waiting, or make you more nervous (if so, wait alone outside)?
- In the exam, spend the first 5 minutes reading the paper. Make sure you understand the instructions to answer the right number of questions. Decide which questions to answer.
- It is important to understand the question and answer what is asked. Underline key and 'instruction' words. You will not get marks for an irrelevant answer even if it is excellent.
- Try to avoid questions which contain a word or phrase you don't understand.
- Decide how long to spend on a question, stop working on it when that time is up, return to it if you have time to spare.

SPRING 2006 ATTEMPT

QUESTION NUMBER & MARKS	QUESTION	IMPORTANT POINTS
QS 4 MARKS – 8	A subsidiary was previously being audited by a local firm. However, the auditors were changed last year, and the current year's audit has been performed by a firm, which has been affiliated with your firm for a long time.	Students were required to identify the differences in audit procedures, due to the change in the auditors. They, however, focussed on the audit procedures, without taking into consideration that the new firm is its affiliate.

SPRING 2006 ATTEMPT

QUESTION NUMBER & MARKS	QUESTION	IMPORTANT POINTS
QS 5 MARKS – 4	Give four examples of the circumstances when manual controls are given preference over the automated controls.	Students did not understand the requirements of the questions, and listed down the manual and automated controls, instead of listing down the circumstances where manual controls are preferred over automated controls.

EXAMINATION TECHNIQUES

- For an essay question, write a strong introductory paragraph showing you understand the question and a strong last one drawing conclusions.
- The first 50% of the marks are the easiest to get; the next 25% are harder; the last 25% are the hardest. If you run out of time: two half answers may get more marks than one full one; jot down the main points to include while they are in your mind and return later.
- Write clearly so the examiner can read your work. S/he may be influenced by not being able to do so. Number answers correctly.
- Quantity will usually not get marks. Avoid padding/irrelevancies which take up time without improving your grade.

Scenario type questions

1. The reason for the introduction of these types of questions is to discourage rote learning
2. It has been noted that most students only give the conclusions in such type of questions
3. The most important aspect of giving such questions is to test if you have understood the concepts.

MOST COMMONLY MADE MISTAKES

- **GETTING STUCK OVER A SINGLE QUESTION**
- **PANIC AND PRESSURE HANDLING**
- **NOT BEING QUICK ENOUGH**
- **NOT RESTING ADEQUATELY BEFORE THE PAPER**
- **THE PAPER IS 2 PM TO 5 PM ENSURE THAT YOU PRACTICE DURING THE LEAVE AT THESE TIMES**
- **NOT READING THE REQUIREMENTS OF THE QUESTION CAREFULLY**
- **NOT PLANNING BEFORE ATTEMPTING THE QUESTION**

COPING WITH NERVES

1. Identify what happens if you are nervous in an exam. It may make the solution obvious.
2. Do good revision/preparation.
3. Find out in advance as much as possible about the exam and the exam room.
4. Identify what to do in the first 5 minutes of the exam in what order and stick to it. Doing simple things first will steady you down, rather than jumping straight into a question.
5. Make yourself comfortable for the exam (eg warm/cool clothes, handkerchiefs etc)
6. Avoid being overtired
7. Avoid last minute revision

Referral / lapse

Please analyze your mistakes.....

- Step 1 – Attempt the paper which you did not pass again and mark your copy and get it marked by an independent person e.g. teacher / senior. Do not refer text book prior to attempting the paper if you want a realistic assessment
- Step 2 – On the basis of your attempt identify your weak areas. Closely analyze your answers to see drafting mistakes, grammatical mistakes and most importantly conceptual mistakes.
- Step 3 – Work on your weak areas.
- Step 4- After thoroughly revising the course conduct mock examinations as discussed earlier
- Step 5 – Constantly strive for improving your grade because even if you pass the mock, the conditions in the actual exam are different

CAVEATS



CAVEATS

- **ALL COURSE MATERIAL, STUDY TECHNIQUES, KEY AREAS EMPHASIZED DURING THIS SEMINAR REPRESENT MY VIEW POINT AND NOT THAT OF ICAP.**
- **THE INSTITUTE DOES NOT PRESCRIBE A PARTICULAR PUBLISHER ALTHOUGH RECOMMENDED COURSE MATERIAL LIST IS AVAILABLE IN THE YELLOW BOOK.**

Q & A SESSION.....??



***Thank u for attending the seminar
and best of luck for the exams!!!***