

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN	
EXAMINERS' COMMENTS	
SUBJECT Audit and Assurance	SESSION Certificate in Accounting and Finance – Autumn 2014

General

The overall performance was much better as compared to the previous attempt as 42% of the students scored passing marks.

Question-wise performance is discussed below:

Question 1

This question was generally well answered with candidates correctly stating the preconditions for an audit such as the need for an acceptable financial reporting framework and acknowledgement of management's responsibilities for preparation of the financial statement, internal controls and access to information and personnel. However, a number of candidates failed to mention that obtaining an agreement from management with respect to the premise of an audit was also necessary. Further, some students misunderstood the term completely and started focusing on the capability of an auditor and the capacity of the audit firm.

Question 2

According to the scenario given in this question, a firm has been approached for appointment as auditor of a company by replacing the existing auditor, during the forthcoming Annual General Meeting.

In part (a) most of the students explained the procedure to be followed correctly except the requirement to intimate the registrar about the change. Some of the students mentioned about informing and obtaining permission from ICAP which was incorrect.

In part (b) most of the candidates restricted their response only to seeking professional clearance. Many students did not mention the responsibilities of the previous auditors to respond to new auditor's request for NOC and the new auditor's responsibilities if a response is not received from the previous auditors or a negative response is received. Further, few students also discussed the capabilities of the new firm to take up the audit and the eligibility of the auditors who can accept the audit of a listed company, which were not relevant.

Question 3(a)

This question required identification of fraud risk factors in the given scenario. Most of the candidates rightly outlined the issues like lack of segregation of duties, the role of CEO (Anwar) and the financing need and/or the early completion of audit as amongst the fraud risk factors. However, most of them ignored the fact that due to rapid change in technology, inventory may become obsolete which also becomes a fraud risk factor.

It was also noted in a number of instances that even though the students were able to identify the relevant fraud risk factors, they did not properly explain why there was a risk or what affect the risk had. For example, some candidates identified the demand by Anwar for early completion of the audit as a risk; however, they did not explain that there was a risk because requirement for early completion could limit the ability of the auditor to carry out a thorough audit and may distract him from his responsibilities.

Question 3(b)

This part required candidates to assess whether it was appropriate to use working papers of the internal audit. Most of the candidates rightly recommended not to rely on the working papers of the internal audit but could only identify the lack of appropriate qualification of internal audit personnel as the reason. The issue of independence and conflicting responsibilities was highlighted by a limited number of students only.

Question 4

It was a simple question with the requirement to list five substantive procedures for verification of accrued expenses and contingencies. The part related to accrued expenses was fairly attempted by majority of the candidates. However, some students did not mention important steps like subsequent payment and analytical review etc.

In case of contingencies, the majority missed important points like lawyers' confirmation and compliance with IFRSs. Many candidates stressed on checking the information made available by the client but did not mention steps to ensure completeness.

Question 5

It was a simple question requiring identification of weaknesses in inventory count procedure in the given scenario and the implications of such weaknesses on the inventory count. This question was well attempted as the candidates managed to identify the related weaknesses. However, a number of students also explained how such weaknesses may be improved instead of explaining the implications of the identified weaknesses. Some of the students unnecessarily discussed stocks held by third party and obsolete stocks whereas in scenario based questions, unless the situation explicitly demands otherwise, one should restrict to matters related to the given scenario only.

Question 6

The question consisted of three parts. The requirement and the candidates performance in each part are discussed below:

(a) **Control Environment and its elements.**

This part was well attempted. Majority of the students explained Control Environment correctly although some of them wrote ambiguous/incomplete statements such as “Control Environment is the Environment in which controls operate”.

Only few candidates were able to mention all the elements of Control Environment but a vast majority could mention only 3 or 4 of them. Some students used guesswork and included anything they thought fit like honesty, integrity etc.

(b) **Walk through tests and why they are performed.**

Walk through tests are performed to confirm the auditors understanding of the internal controls. Many students confused these with tests of controls and stated that walk through tests are performed to test the effectiveness of controls. Many students mentioned that these are carried out to determine whether detailed substantive tests are to be performed or not.

(c) **Materiality and Performance Materiality.**

The overall performance was good as generally the candidates seemed to understand the two concepts and also the difference between them.

Question 7

According to the situation given in the question, it was determined during the audit that information provided by the client as part of management representation was inaccurate as an incidence of non-compliance with law had not been reported.

The performance was average as many candidates jumped to the conclusion that audit opinion needs to be modified, without analyzing the situation. Further, the following important steps were mostly missing.

- Consider whether risk assessment in the concerned area is still appropriate.
- Consider the integrity of management, document those concerns and consider the possible course of action.

Question 8

The requirement was to draw a flow chart relating to a loyalty card scheme, showing payment process, point accumulation and point redemption by customers. Preparation of flow charts requires a lot of practice which seemed to be lacking in most cases.

Question 9

In this question, six controls were identified and the candidates were required to classify them as preventive, detective or corrective controls and to give brief reasons to support their classification.

Generally this question was well attempted. However, in some cases candidates managed to identify the correct control but could not explain their reasons clearly. Some candidates gave conflicting and ambiguous answers; for example, some of them correctly identified training as a preventive control; however, in the explanation they stated that trained persons are able to “detect” and “correct” errors.

Question 10

This question consisted of 10 short questions of 1, 2 and 3 marks each. The question was generally well answered. However, some candidates did not read the requirements of each part carefully and produced lengthy explanations where the requirement was to state the points only. The performance in each part is discussed below:

- (a) Generally done well.
- (b) Advocacy threat was described correctly but examples were often incorrect. Many students gave examples of purchase of shares which was not relevant in this case.
- (c) The concept of actual independence and perceived independence was appropriately distinguished by majority of the candidates. However, a significant number of students were totally confused as regards perceived independence and stated that actual independence represented “true independence” whereas perceived independence meant that the auditor was not independent and only appeared to be independent.
- (d) In outlining the situation where confidential information may be disclosed, many candidates did not seem to distinguish between ‘required by the law’ and ‘permitted by the law’. Some candidates also gave examples of such situations which was not required.
- (e) While describing systematic sampling many candidates correctly stated that the items are selected after a standard gap but did not state how the starting point is selected.
- (f) Most of the candidates mentioned the conditions for sending negative confirmations but did not mention an important point that negative confirmation may be used if all the said conditions are met.
- (g) This question regarding obtaining of evidence in case of a review assignment was generally well answered. However, some candidates confused review assignment with “consultancy” engagements. Many students did not mention a key step i.e. agreeing of interim financial information with accounting records.

- (h) Many students seemed confused and discussed auditors responsibility for events subsequent to publishing of financial statement or after signing of the report instead of the responsibility for the subsequent events after the period end but before the date of auditors report.

Many students mentioned that auditor is responsible to ensure that all subsequent events have been duly incorporated in the financial statements whereas such responsibility lies with the management. The auditor's responsibility is only to obtain audit evidence to support the above view.

- (i) Candidates seemed to have a good understanding of related party procedures. However, some of them stated procedures to verify the listed related parties rather than procedure for ensuring the completeness of the related information.
- (j) This part was well answered by most of the candidates.

(THE END)