

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN	
EXAMINERS' COMMENTS	
SUBJECT Audit and Assurance	SESSION Certificate in Accounting and Finance – Autumn 2015

General:

The overall performance was satisfactory. The paper had a wider coverage of the syllabus and consequently those who had resorted to selective studies could not perform well. The impact of selective studies can be gauged from the fact that more than 15% students scored zero in four questions.

Question-wise comments are as under:

Question 1(a)

The requirement of this part of the question was to explain the term 'expectation gap' and to give three examples thereof. The performance was above average as generally the candidates performed well. However, some students explained it as the difference between expected and actual results of the tests performed by the auditor. Some of them explained it as the differences between the management and the auditor.

Question 1(b)

The requirement was to identify the factors that the auditor would consider in evaluating the control environment. Many students seemed confused and specified the various controls that are applied by the management. Some candidates quoted the components of the control environment rather than the factors for its evaluation.

Question 1(c)

Many students did not read the question carefully. Consequently, they mentioned the routine procedures that are performed to identify and disclose the related party transactions instead of focusing on the fact that the transactions were outside the normal course of business.

Question 1(d)

This part was well answered. However, many students did not specify the types of review engagements. Many students mentioned the names of the standards rather than the types of review engagements.

Question 1(e)

The requirement was to identify the factors that are considered in determining the independence of internal auditors. Many students talked about independence of external auditors. Very few students gave the correct answer.

Question 1(f)

Very few students gave correct answer to this question which required substantive procedures for verification of share premium account. Many answers were limited to tracing of opening balance only. Further, many students tried to relate market price with share premium. Some of them even mentioned about verification of list of shareholders which was totally irrelevant.

Question 1(g)

The requirement was to explain the different levels of assurances and give examples. The performance was poor. A variety of answers were observed but very few stressed upon two important aspects i.e. high/moderate level of assurance and positive/negative form of the assurance. Instead, many students discussed the various types of audit reports.

Question 1(h)

The use of negative confirmation was rightly explained by a large number of candidates. However, only few candidates mentioned all the conditions.

Question 2(a)

The performance in this part was above average. However, only few students could secure full marks. ISA specifies two main conditions which indicate the need to send an engagement letter. It gives six other factors which indicate the existence of these two conditions. In most of the cases the candidates only mentioned the six factors but did not mention the two main conditions.

Question 2(b)

The performance in this part was average. Majority of the candidates only mentioned that if the changes are unreasonable the auditor should resign. Steps that may be taken before deciding to resign such as discussion with management and reporting to those charged with governance, were rarely mentioned.

Question 3

In this question, a scenario was given and on the basis thereof, the candidates were required to identify the level of risk (high, low, moderate) associated with six different areas of audit along with appropriate justification. The key observations are specified below:

- Many students tried to evaluate the risks involved in the given situation but did not rate the risk as high, moderate or low.

- Proper justifications were not provided. Some common issues in this regard were as follows:
 - Risk for gratuity was declared high because calculation of gratuity is complex and not because it was unfunded.
 - Risk in valuation of unlisted securities is high because of the absence of market quotations whereas mostly the students mentioned poor economic conditions as the reason.
 - Risk related to trade debts was declared as high since payments from government were delayed. The fact that government dues are eventually recovered did not receive due consideration from the students.

Question 4

This question was based on a situation which had arisen after the issuance of the audit report but before the issuance of financial statements. The key aspects of the students performance are discussed below:

- Many students failed to clearly identify that it was an adjusting event.
- Many students reached the conclusion that the auditor should take steps to avoid reliance on the audit report without discussing the intermediary steps such as discussing with client and trying to reach an agreement regarding amendment in financial statements.
- Many students who identified it as an adjusting event described the need for disclosure only and did not recommend any other amendment.
- It was clearly written in the question that audit report has been issued. Still, many candidates mentioned the steps that were required in case the audit report had not been issued.
- Very few students specified the procedures in case the client agrees to revise the financial statements appropriately.
- Many students answered the question in different parts and termed some of the information as adjusting and some of it as non-adjusting. In fact, all the information pertained to a single event and should have been dealt with accordingly.

Question 5

In this question, eight IT related controls were mentioned and the candidates were required to classify each control as preventive, detective or corrective and then as General IT control or Application control. The question proved easy for most of the students as they only had to choose between 3 and 2 choices whereas even in MCQs, there are four choices. However, some candidates mentioned two different choices against the same control and such answers were considered incorrect. Some students wasted time in writing each control.

Question 6

The question contained three observations which were highlighted during the audit of a company. The candidates were required to discuss the possible impact thereof on the audit report. One of the major issue in many answer scripts was that the candidates only recommended modification of audit report without clearly identifying the type of modification i.e. qualification, disclaimer, emphasis of matter paragraph, etc.

Performance with respect to each part is discussed below:

Question 6(a)

Majority of the students accepted the management's argument that the provision is as per expert's advice and stated that if alternate procedures can be performed then audit report does not need to be modified even if the management refuses to provide appropriate representation. This was not correct because when any amount in the financial statements is computed on the basis of assumptions the management must assume responsibility for these assumptions even if the calculation has been carried out by an expert. Further, many candidates also discussed attributes of the expert which were not required at all, in this case.

Question 6(b)

Average performance was witnessed in this part as most of the candidates correctly concluded that contingent assets cannot be disclosed unless it is probable that these would be realized. However, as regards the impact on audit report, most of the candidates seemed confused and recommended insertion of emphasis of matter paragraph probably because they were not sure whether the report may be qualified merely on the grounds of disclosures.

Question 6(c)

The performance in this part was very poor. Most of the students termed it as a case of recording of revenue in contradiction of the accounting policy and recommended that the report may be qualified. In fact, in the given scenario, the accounting policy needed to be revised to ensure that in all cases revenue is recognized when the risks and rewards associated with ownership are transferred to the customer because it would be inappropriate to follow the existing policy in case of contracts which required delivery of goods at the customers' premises. This aspect was discussed by few students only.

Question 7(a)

This part was quite simple and almost every student performed well.

Question 7(b)

According to the situation given in this part of the question, the debtors of an organization were divided into four categories. Customers above Rs. 50 million will be placed in Category A, those above Rs. 10 million and Rs. 1 million in Category B and C respectively and those below Rs. 1 million in Category D. Three different suggestions were given for drawing a sample and verification and the candidates were required to discuss the appropriateness of each method of drawing the sample and give a final recommendation. The best comments were received in respect of option (i) where majority of the candidates concluded correctly that ignoring Category C and D altogether would not be appropriate. In response to the second option some of the students discussed positive and negative confirmation which was totally irrelevant. Very few candidates could correctly identify that haphazard sampling does not ensure equal chance of selection for each item and this can be ensured by random sampling. In the case of third option, only about 25% of the candidates could identify that selection based on descending order cannot be termed as systematic sampling.

Question 8

Part (a) was very well answered by majority of the students. In part (b) also, the performance was good. Many students mentioned about CPU speed which was incorrect. The overall result was quite unique as about 20% students secured full marks whereas an equal number of students did not attempt it and a further 8% could not secure any mark.

Question 9

This question contained three situations and the candidates were required to discuss the categories of threats involved and the related safeguards. Performance in each part is discussed below:

Question 9(a)

The overall performance was below average. Self-interest threat was correctly identified by majority of the students but very few could identify the intimidation threat. Further, mostly the candidates just mentioned that discount vouchers should not be accepted. Significance or insignificance of the amount involved was not discussed. Many students specified safeguards such as involving additional chartered accountant, quality control and review of the work, which were not relevant.

Question 9(b)

The overall performance was average. Though the threat was generally identified correctly as a self-review threat, however, in most of the cases the safeguard that management responsibilities should not be assumed was not mentioned.

Question 9(c)

In this part also, candidates correctly mentioned relevant threats, but most of them mentioned only one safeguard i.e. rotation of the audit personnel. The safeguards relating to independent quality control review by an independent reviewer were rarely mentioned by the students. Many students said that the partner should be rotated which was already mentioned in the question.

Question 10

This was a simple question where the requirement was to identify the possible weaknesses in overtime payments and suggestion of appropriate internal controls over payment of overtime.

On the whole, performance of the candidates was average. An important weakness i.e. working overtime without proper authorization was rarely mentioned.

Many students correctly identified the weaknesses but were unable to explain the corresponding controls which was surprising because it was quite simple. For example, a weakness that overtime is not authorized, can simply be controlled by having a proper system of authorization.

Many students mentioned the steps involved in testing the controls, which was not relevant.

(THE END)