

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

General:

The overall performance in this paper was average. Candidates displayed reasonable knowledge of areas where they were required to state meanings and facts, however, when they were required to analyze information or identify risks and the related controls, they displayed a lack of understanding.

Question-wise comments are as under:

Question 1(a)

Candidates were required to state the meaning of risk at the financial statement and assertion level with an example of each. Many candidates mentioned correctly that the financial statement level risks are those which are pervasive to the financial statements as a whole. However, many students stated that such risks affect many “accounts” instead of many “assertions”.

As regards assertion level risks, the performance was poor as most of the candidates could not explain that these risks relate to specific objectives of the financial statements.

Question 1(b)

This part was generally well attempted as most of the candidates displayed good knowledge of matters contained in engagement letters.

Question 1(c)

This part was also attempted well and candidates possessed good understanding of situations where auditors are appointed by persons other than the company’s shareholders.

Question 1(d)

Candidates were asked to describe deployment and opportunity flowcharts. This proved quite difficult. Many candidates did not attempt this part at all and others did not show proper understanding of those flowcharts. The students are advised to seek guidance in this regard from ICAP’s suggested answers.

Question 1(e)

Candidates displayed a lack of understanding of matters to be considered when designing and performing substantive analytical procedures as many of them gave irrelevant details. The students are advised to seek guidance in this regard from ICAP's suggested answer.

Question 1(f)

The performance in this part was good and generally the candidates correctly identified the auditor's reaction to a situation where written representation of the management is inconsistent with other audit evidence.

Question 1(g)

Candidates did not display appropriate knowledge of considerations regarding sample design, size and selection. Most of the candidates mentioned just one point that size of the sample would depend upon the extent of risk. The important point i.e. sample, should be selected in such a way that each sampling unit has an equal chance of selection, was covered by few candidates only.

Question 2

In this question the candidates were required to comment on two simple situations related to appointment of auditor. Response in each case is discussed below:

- (a) Though a number of students gave the correct answer that employment of spouse of a partner in associated company of the client has no relevance to the appointment of the auditor. However, many candidates gave detailed provisions of the Companies Ordinance related to directors of audit clients and their spouses which was not relevant.
- (b) Generally, the candidates were able to mention correctly that there was no specific requirement as regards appointment of auditors of a private company with paid up capital of less than Rs. 3 million, provided the company was not a subsidiary of a public company. However, some candidates stated incorrect paid up capital requirement and many candidates considered NPL as a subsidiary of a public company.

Question 3

In this question, the candidates were required to discuss the requirements related to discarding or deleting audit documentation after the assembly of the final audit file has been completed. However, a significant number of candidates thought that the question pertained to amendments to the financial statements and audit report, on identification of subsequent events and provided significant details of the procedures required in such situation.

Many candidates used guesswork and stated matters such as permission of the engagement partner/manager and importance of the documents etc. which were entirely irrelevant.

Question 4(a)

This was a straightforward question and was well responded. Candidates displayed a good understanding of matters necessary to determine the competence, capabilities and objectivity of the expert and evaluation of the “work” of the expert. However, points related to competence and adequacy of work were interchanged in some cases.

Question 4(b)

It was a simple question where candidates needed to discuss the course of action, in case the auditor was not satisfied with the work performed by the auditors' expert. Generally the candidates performed well. However, some candidates repeated the same points as were mentioned in response to part (a) of the question.

Question 5

In this question, data relating to four different customer segments was provided. An analysis of the debtor circularization carried out by the auditor and brief comments on the response received were also provided. The requirements were divided into three parts. Response to each part is discussed below:

- (a) In this part, the candidates were required to comment on the decision to send negative confirmations to two of the four segments. The candidates response was quite poor, because of the following reasons:
- Some candidates analyzed all segments irrespective of whether they were sent negative or positive confirmations and therefore lost valuable time.
 - Some candidates gave a combined answer for both, retailers as well as hospitals/clinics and did not discuss them separately as separate segments. Consequently, they gave inappropriate answers as the two situations were quite different and concluding remarks in two cases should have been different.
 - Many candidates stated the factors that justify sending of negative confirmations; but did not conclude as to whether the decision to send negative confirmation was correct or not.

For a proper analysis of the situation, the candidates are advised to seek guidance from ICAP's suggested answer.

- (b) In this case, the candidates were required to state the required audit procedures when (i) replies to confirmations agreed with the balances in the clients books (ii) did not agree and (iii) when replies were not received. Many candidates were not able to correctly describe the necessary procedures when balances did not agree. Many of them just mentioned about the need for a reconciliation without mentioning that the reconciliation needed to be checked and also did not distinguish between reconciling items which indicated errors on the part of the client and those which indicated errors on the part of the customers. In case of no reply, most students recommended written reminders, follow up, telephone calls etc. Only about 50% of the candidates mentioned about the need to adopt alternative procedures.
- (c) In this part, majority of the candidates mentioned about the need to write off/provide for the amount receivable. However, they did not mention that the calculation and basis of such write off/provision should be reviewed.

Question 6

In response to this question, majority of the candidates went into extensive details regarding various substantive procedures to verify related party transactions instead of addressing the situation given in the question i.e. clients failure to disclose Neelum Limited as a related party; and its implications on further audit procedures.

Candidates should always read the question carefully and it has been mentioned quite often that display of irrelevant knowledge even if correct, is of no value and is a mere wastage of time.

Question 7

In this question, three situations were given and the candidates were required to advise the firm about the possible course of action in each situation. The performance in each case is discussed below:

- (a) Self-review and familiarity threats were correctly identified by majority of the students as the concerned employee of the firm was providing accounting and taxation services as a consultant prior to appointment in the audit firm. The safeguards were also mentioned correctly. However, the need to identify the significance of such threats and to decide whether the concerned person should be a part of the respective assurance engagement, was not discussed.
- (b) The threat was correctly identified in most cases as a self-interest threat when a father of a trainee has a financial interest in the client but the issues of materiality and significance of the threat were not discussed by many students. Further, many candidates produced a long list of safeguards and did not appreciate that if the financial interest was material, the only safeguard available was to remove the concerned trainee from that audit.

- (c) There is a self-interest threat when a member of the team participates in an assurance engagement while knowing that he may join the assurance client in future. The overall performance was good. However, some candidates incorrectly identified other threats such as advocacy threat and intimidation threat instead of or in addition to self-interest threat.

Question 8(a)

The question required the candidate to identify the risks related to the receiving of goods and invoices from suppliers. Most of the risks such as acceptance of goods without being ordered or raising of invoices for goods not received etc. were correctly identified. However, some candidates gave detailed substantive procedures to address those risks which were not required. Further, many candidates mentioned controls on placement of orders which were also irrelevant.

Question 8(b)

In this part the candidates were required to specify the controls that would address the risks identified by them in part (a) of the question. Many candidates mentioned correctly the controls such as segregation of duties, checking, physical counting, cross-matching of documents, signature of authorized personnel on certain documents, etc. However, many candidates did not display a good understanding of the difference between a control (implemented by the company) and a test of control (performed by the auditor).

Question 8(c)

In this part the candidates were required to mention the audit procedures to test the control identified by them in part (b) above. As indicated above, many candidates repeated the procedures mentioned as controls in the previous part rather than stating how they would “check/test” whether such controls actually existed.

Question 9

In this question, four independent situations were given and the candidates were required to identify with justification whether the situation represents a risk of fraud. The performance in each part is discussed below:

- (a) (i) As the company's profitability was under threat, management may have been inclined to manipulate records to show a better position as the company's performance was likely to have deteriorated because it was not able to increase the prices. Many candidates did not view the situation in that perspective.
- (ii) Majority of the students identified correctly that research costs added to intangible assets represented only 2% of the amount capitalized and was duly supported by invoices. Hence, it was an error as opposed to a fraud risk factor.

- (iii) Most candidates correctly stated that due to management's interest in receiving profit related bonuses, there existed a risk that management may manipulate records.
 - (iv) By reporting sales of goods which had not yet been dispatched, the management may be trying to overstate profits of the company and this was identified by a number of candidates. However, many candidates completely misunderstood this part and expressed the view that the company was overstating inventory by keeping such items in the closing stock.
- (b) This part required candidates to specify the actions to be taken by the auditor if a fraud risk factor is identified and most of the candidates were able to perform well.

Question 10

Many candidates scored full marks in this question in which they were simply required to state various controls over data "transmission" that help to ensure that data is secure and unaltered. Some candidates did not read the question carefully and mentioned general data security procedures rather than those required in case of transmission of data.

(THE END)