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| <b>THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN</b> |  |
| <b>EXAMINERS' COMMENTS</b>                                |  |
| <b>SUBJECT</b><br>Audit and Assurance                     | <b>SESSION</b><br>Certificate in Accounting and Finance –<br>Autumn 2016 |

**General:**

A good performance was witnessed in this paper. The primary reason was that generally the candidates seemed to have avoided the tendency of selective studies as the performance was almost equally good in all the questions. Question wise comments are discussed below:

**Question 1**

This question consisted of five parts. Part (a), (d) and (e) were well attempted by most of the students. In part (b) very few students were able to mention all the points. Most of the students missed the steps relating to communication with those charged with governance. Further, most of the students explained the implication on the report of the management refusal which was not required. In part (c) most of the students did not say anything about control reporting and budget analysis.

**Question 2**

The performance in this question was average. It was a very straight forward and should have been a high scoring one as quite a few facts were already included in the questions. However many students failed to understand the requirements and comprehended the question in a different perspective.

**Question 2(a)**

In this part, the candidates were required to discuss the external auditor's responsibility relating to fraud. It was a four mark question and quite obviously the requirement was to discuss that the primary responsibility is to express an opinion on the financial statements and how the issue of detection of fraud is associated with the primary responsibility. Instead, most of the students went on to explain the complete procedure how the fraud risk factors are identified and addressed. Many students even mentioned that it is auditors' responsibility to identify fraud, which raised question about even the most basic understanding of such students.

**Question 2(b)**

This part required the candidates to identify four examples where management's attitude towards the audit/auditors is indicative of a possibility of fraud. Generally the performance was satisfactory, however, some of the students reproduced the fraud risk factors which were not relevant as had nothing to do with management's attitude.

**Question 2(c)**

The scenario in this part of the question was quite simple and most of the students were able to score well.

**Question 3(a)**

The performance in this part relating to assembly of audit file was below average as a significant number of students were unaware of the concept and resorted to guesswork.

**Question 3(b)**

The performance was reasonable. However, a number of students approached this question as a case of subsequent event. Some students went as far as discussing possible implication on the report, though the question merely required the matters that were to be documented in the given scenario.

**Question 4(a)**

It was a well answered question and most of the students secured high marks. However, some students restricted themselves to steps for verification of the already identified related party transactions rather than steps to ensure completeness.

**Question 4(b)**

This part was based on a situation whereby the management had declined to issue specific representation regarding completeness of list of related parties and related party transactions. The overall response was average. Most of the students were able to identify that the reason given by the management was not acceptable and the management should be asked to provide written representation. However, very few can clearly describe as to what the auditor should precisely do in case of management's refusal.

**Question 5**

This question consisted of six parts. Each part contained a statement regarding audit report and contents thereof and the candidates were required to identify whether the statement was appropriate, based on the relevant ISA. Performance in each part is discussed below:

**Question 5(a)**

The performance was quite poor as generally the candidates were unable to identify that in addition to the responsibilities mentioned in the statement, management's responsibility to assess the entity's ability to continue as going concern and some related responsibilities are also required to be mentioned in the audit report.

**Question 5(b), (c) & (d)**

Most of the student got high marks. Errors were rare.

**Question 5(e)**

Quite a few students instead of discussing the responsibilities of signing of audit report focused on differentiating between single member firm and firms having multiple partners which had no relevance.

**Question 5(f)**

The performance in this part was poor. Students were generally not able to identify any of the two key points, i.e. key audit matters are selected from the matters reported to those charged with Governance and that these relate to the current year as matters only relating to previous years are not covered.

**Question 6**

The performance was average as the students mostly wrote a few relevant points only. Many students also included control tests whereas it was clearly mentioned that test of details were required. Further, many students did not read the question carefully and only covered revaluation rather than valuation assertion. Consequently, they wrote unduly lengthy notes on the attributes of the valuer, whereas only a brief reference was quite sufficient.

**Question 7**

This question on qualification/disqualification of auditor contained three parts/situations. Performance in each part is discussed below:

**Question 7(a)**

The performance remained average as a number of students were of the view that directorship and/or shareholding in subsidiary is not relevant in evaluating the qualification of the auditor of the holding company.

**Question 7(b)**

This was a well scoring part. However, most of the students failed to mention that directorship of the wife does not matter in the scenario.

**Question 7(c)**

Again a very well attempted part as most of the student correctly identified that the given situation had no relevance as regards the appointment of auditor.

**Question 8**

This was the best attempted question as more than 85% students secured passing marks and a substantial number scored high marks. Almost all the students identified the threats correctly. Few marks were lost because some of the related safeguards were missed.

**Question 9**

The requirement was to specify eight key procedures which are performed in case of a review engagement involving historical financial statements. The performance remained mixed. About 9% of the students did not attempt this question whereas about 12% scored full marks.

Majority of the students, even those who managed to secure passing marks, seemed to lack a clear understanding of a review engagement as many of the procedures included in their answers are only performed in an audit engagement.

**(THE END)**