

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN	
EXAMINERS' COMMENTS	
SUBJECT Audit and Assurance	SESSION Certificate in Accounting and Finance – Spring 2016

General:

The overall performance of the students in this attempt was very poor. Especially, very bad performances were witnessed in questions 1, 8, 10 and 11. There was a tendency to write what one knew rather than what was being asked as would be seen in the question-wise comments. Moreover, sub-standard writing skills were quite common as many students could not even distinguish between words such as “assess”& “access” and “trial”& “trail” and were unable to maintain the same tense, while writing their answers.

Question-wise comments

Question 1

In this question the candidates were required in their capacity as audit manager, to comment on two issues which they identified during review of the working papers. The overall performance was very poor as discussed below:

- Very few of the students mentioned or described how to deal and what procedures to perform in respect of the management’s refusal to send confirmations in respect of balances below Rs. 100,000. In fact, most of them concurred with the decision without raising any concerns. Many students suggested sending negative confirmations without mentioning any reasons thereof.
- Very few students could explain that the confirmation received from creditors only confirms the recorded amount and is not relevant for the purpose of testing of unrecorded amounts.

Question 2

This question was in the context of a recently established chain of supermarkets and required identification of necessary controls on specific areas as discussed below:

- (a) Cash Sales and Cash Handling.

Majority of the candidates seemed to ignore the fact that they were discussing controls relevant to a chain of supermarkets and as if they were working in an environment prevailing in the 1990s. Most of them mentioned that there should be segregation of duties between persons receiving the cash and the person recording it. Many of them also mentioned controls over payments. Controls such as timely deposit of cash and provision of locks to keep the cash securely were rarely mentioned. Many students mentioned controls over sales rather than over cash.

- (b) Controls to reduce possibility of misappropriation of inventory.

The performance in this part was much better. However, some of the common issues are discussed below:

- Almost all students mentioned about monthly or periodic physical check; however, only few mentioned the need for 'surprise physical count'.
- Checks over purchasing of goods, movement of stocks and surveillance cameras were generally missed out.

Question 3

This question was based on the topic of 'fraud' and consisted of two parts. Performance in each part is discussed below:

- (a) A below average performance was witnessed in this part though a number of students secured high and even full marks also. The major issue with most of the candidates was that they did not seem to understand that the answers should be focused on how fraud may be perpetrated by the management by override of controls. Moreover, most students seemed to focus on misappropriation of assets and ignored other areas such as altering of records, concealing of facts, etc.
- (b) Again students failed to understand the main crux of the question i.e. the requirement to state the procedures to identify the risks of material miss-statements due to fraud as many of them tried to identify substantive procedures aimed at discovering frauds or the procedures to mitigate the risk of fraud.

Question 4

This question consisted of two parts. In each part a situation was given and the candidates were required to assess whether the appointment of auditors was in compliance with the requirements of Companies Ordinance 1984. Part wise comments are given below:

- (a) Performance in this part was average. Many candidates gave correct answers but many of them stated incorrectly that appointment of KCC is invalid because the partner's electricity bill was outstanding which meant that he was indebted to NEL. They did not understand that since 90 days had not lapsed therefore the appointment could be valid provided the concerned partner settles the bill within 90 days.
- (b) The performance in this part was also average as about 50% of the candidates were able to explain that there is no restriction on the appointment of spouse of chief executive of an associated company as the auditor.

Question 5

This question also consisted of two parts. Each part contained a situation and the candidates were required to identify the threats involved and suggest appropriate safeguards. Part-wise comments are provided below:

- (a) Performance in this part was above average. Majority of the candidates rightly identified the threats and related safeguards. However, a number of candidates identified self-interest threat which was not correct. Many candidates mentioned irrelevant safeguards also.
- (b) The performance was average. Most of the students were able to identify the self-interest threat. However, very few candidates discussed the main issue i.e. whether the lease was under normal conditions or otherwise.

Question 6

This question consisted of five parts. Part-wise comments are provided below:

(a) **Five substantive procedures for verification of Provisions**

Overall performance was above average as almost every student specified some of the procedures correctly. However, many students tried to repeat the same points to reach the required tally of five procedures. Further, procedures for identifying unrecorded liabilities were usually missed.

(b) **How auditor evaluates sufficiency of the audit evidence**

The overall performance was reasonable. However, an important point that the auditor would need to use his judgment to determine the sufficiency of audit evidence was not mentioned except in few cases.

(c) **How to evaluate adequacy of the work at internal audit function**

This was the worst answered part of this question. Rather than focusing on adequacy of the work most students went on to write about the independence, competence and qualification of the internal auditor which was not in line with the requirement of the question.

(d) **Six physical access controls over an IT system**

This part was well answered by majority of the students. However, some of the students included logical controls also. Some candidates resorted to repetition of same points. Many such students mentioned different biometric identifications such as facial, fingerprints and eye scanning etc. as separate points.

(e) **Brief discussion on Professional Skepticism**

This part was generally well answered. However, many candidates discussed professional excellence rather than professional skepticism.

Question 7

- (a) In this part of the question, the candidates were required to briefly describe the importance of materiality at (i) planning stage and (ii) reporting stage. Most of the students discussed the reporting stage correctly; however discussion on materiality at planning stage was mostly sub-standard as most students did not discuss its importance with relevance to designing the nature, extent and timing of the procedures. In many cases it was ignored altogether. Some of the students tried to give a combined answer in which they simply highlighted the importance of materiality without referring to any of the two stages.
- (b) The requirement was to specify the matters that need to be documented in the working papers in respect of materiality. The overall performance was below average as many students seemed to resort to guesswork and gave lengthy answers covering various irrelevant issues.

Question 8

Both parts of this question on written representation were very poorly answered as discussed below:

- (a) The key issue to ponder in this case was the fact that representation provided by the client had proved false by subsequent events. Consequently, the candidates were expected to consider the impact of the situation on the risk assessment carried out by the auditor previously. Most of the students failed to comprehend the situation and focused on identifying subsequent events, discussing adjusting and non-adjusting events and how to deal with the situation in the financial statements. Only few students were able to give a correct answer.
- (b) The performance in this part was also poor. Most of the candidates failed to understand the importance of written representation in the given situation and talked about carrying out alternate procedures which was not relevant.

Question 9

This question pertained to the issue of engagement of an auditor's expert. Performance in each part is discussed below:

- (a) The requirement was to list four key terms related to engagement of an auditor's expert. There was wide fluctuations in the quality of the answers as a large number of students secured full marks and almost a similar number did not score any mark as probably because of selective studies, they didn't have any know-how about the given aspect.
- (b) In this part, as in question 6 (c), the students failed to understand that they were required to evaluate the work of the expert rather than the expert themselves. It must be noted that evaluation of the work is carried out after it has been performed as was mentioned in the question, whereas evaluation of the expert is undertaken before appointment.

Question 10

- (a) The requirement in this part was to describe the concept of audit trail. The performance was average. Many students tried to guess the correct answer from the word 'trail' but ignored the requirement to discuss it with reference to computerized environment. Surprisingly, a number of students continuously used the word 'trial' instead of 'trail'.
- (b) The requirement in this part was to describe the concept of embedded audit facility and its significance. The performance was below average as many students were not able to write anything relevant and used pure guesswork. Some of the better students were able to describe the concept correctly but seemed quite unaware of when i.e. under what circumstances such a facility is used.

Question 11

In this question, the candidates were required to discuss the audit risks in a given scenario which pertained to revenue recognition by a university in terms of course fee which includes the cost of course material. It was the worst answered question in the paper.

Some of the key observations are discussed below:

- Most of the students put their entire focus on course material which was not taken rather than the whole scenario.
- Risks of inappropriate recording of fee income and discount were rarely identified.
- Many candidates identified risks from the university's point of view rather than from the perspective of the auditor.
- Only few students were able to identify the steps required to deal with the situation.

(THE END)