

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

**Examiners' comments
Audit and Assurance
Certificate in Accounting and Finance
Autumn 2017 Examinations**

General:

The overall passing percentage in this attempt was quite poor as only 14.7% candidates secured passing marks as compared to 35.8% in the previous attempt. Majority of the students performed well in straight forward memory based questions but reflected poor skills in attempting scenario based questions and those requiring application of knowledge.

Question-wise Comments:

Question 1

This question was based on a simple scenario according to which a client had requested the auditor to provide absolute assurance in the audit report. The candidates were required to draft an appropriate reply.

The question was simple and majority of the candidates i.e. 65% obtained passing marks. The common mistake was that instead of mentioning the inherent limitations of audit, the inherent risks were mentioned.

Question 2

In this question the candidates were required to list the activities which the audit team would like to discuss in its initial meeting with the engagement partner, covering issues pertaining to the first year of audit engagement. The overall performance remained average as around 30% candidates secured passing marks. However, a large number of students (around 40%) had no idea whatsoever of the issues which are discussed at planning stage and could not secure even a single mark. Many candidates did not restrict themselves to issues concerning the first year of audit and wasted time by covering other areas of planning.

Question 3

This question required identification of threats and related safeguards to be applied in three different situations each covered in a separate part of the question. The overall passing percentage was 23%. Comments on each part are given below:

Part (a)

Majority of the answers suggested only one safeguard i.e. not to allow Anwar to be the engagement manager. Hence, safeguards in case the threat is not considered significant and Anwar is appointed as the engagement manager were not covered.

Part (b)

The performance remained below average. Most of the students took the easy way out of suggesting that the firm should refuse to accept the audit, without giving any reason or simply mentioning conflict of interest. Only few candidates were able to suggest correctly that the significance of the threat should be evaluated and the basis thereof.

Part (c)

Majority of the students performed well in this question, however some students identified familiarity threat instead of self-review threat.

Question 4

This question pertained to Electronic Data Interchange and required the students to discuss the risks involved in introducing an inventory management system which was connected with the systems of all the company's suppliers and the controls to mitigate such risks. The performance in this question was very poor and only 15% candidates scored passing marks. Most of the students enumerated the risks involved in purchase of inventories which was totally irrelevant and ignored the risks associated with the connectivity to the suppliers' systems. Consequently, the controls required to address the risks were also incorrect.

Question 5

This question was about a small software house where all the operations were overseen by the Managing Director. The senior staff consisted of analysts and programmers and just one other manager who reported to the MD. The requirement was to describe the key characteristics of such organizations with respect to internal controls and risks.

The response was average and about 29% of the candidates secured passing marks. Answers were mostly generic and important points like lack of evidence of operation of systems and internal controls were usually missing. Key characteristics of large organizations such as segregation of duties, internal audit are usually not found in small organizations this needs to be portrayed which were missed by most of the candidates. Moreover, many candidates wrote risks pertaining to programmers and system analyst which was totally irrelevant.

Question 6

This question was based on a simple scenario whereby in the planning stage an audit senior had assessed the risk of misstatement due to fraud as low because of previous experience with the client which spanned over ten years. The requirement was to guide the audit senior in the given situation and to suggest appropriate procedures with regard to risk of material misstatement due to fraud.

The performance remained poor as only 17% of the candidates secured passing marks. The risk of material misstatement due to fraud and management override of controls is primarily discussed in ISA 240 however students were generally not able to link the relevance. The candidates were expected to highlight and briefly discuss the importance of professional skepticism, the unpredictable nature of this risk and hence its significance in all situations. Most of the students did not proceed accordingly and listed down whatever they could think of.

Moreover, while discussing the procedures, many candidates wrote the procedures where fraud has been identified or is suspected, rather than the required procedures which pertained to the planning phase.

Question 7

This question contained four parts. The overall performance was good as 57% candidates secured passing marks and about 10% of the candidates secured high marks. Part wise comments are given below:

Part (a)

It was probably the simplest of questions and the requirement was to specify four benchmarks which may be used for determination of materiality. Almost all the students scored high or full marks in this part of the question.

Part (b)

In this part of the question, the candidates were required to differentiate between a review engagement and an annual audit. Mostly the performance remained good. However, many candidates went into too much detail without considering the fact that only 04 marks were available. Consequently, lot of precious time was wasted which puts unnecessary pressure on the remaining questions.

Part (c)

This question was almost as simple as part (a) and was well performed by most of the candidates.

Part (d)

In this part of the question, the candidates were required to describe the limitations of flow charts as a tool of system documentation. As has been discussed in the general comments, most of the candidates were not prepared on IT side of the syllabus. The performance in this part proved this point once again as irrelevant answers were provided by most of the candidates.

Question 8

This question pertained to a scenario according to which a loan to the holding company was settled in an unusual manner i.e. by issuance of shares. The candidates were required to evaluate the situation and suggest the required audit procedures. The overall performance remained poor as only 18% of the candidates secured passing marks.

A good number of students identified the related party relationship but failed to identify it as a transaction outside the normal course of business and listed general audit procedures related to related party transactions. Moreover some of the students ignored the fact that it was a related party transaction and perceived it as a going concern problem which was totally incorrect.

Question 9

This question contained two parts and each part contained an independent situation. The candidates were required to specify the audit steps to be performed and possible implications on the audit report in the given scenarios. The overall performance was very poor as only 6% candidates could secure passing marks. Part wise comments are given below:

Part (a)

According to the given situation, the audit firm had hired an expert for evaluation of provision for warranty provided to the customers. The amount of provision had been computed by the client internally using certain complex assumptions.

The performance was extremely poor but could have been better. Majority of the candidates did not read the question carefully and suggested procedures related to assessing the competence and capability of the expert as they clearly disregarded the fact that according to the question these aspects had already been considered by the firm. This situation can have been avoided easily. Moreover, while discussing the implications on the audit report, the reporting of the issue as a key audit matter was mostly ignored. Complete answers covering all angles were rare.

Part (b)

It was a simple scenario according to which the auditor was not able to perform inventory count because the appointment was made after year-end. The candidates were generally able to discuss the requirement to carry out stock taking as soon as possible and verification of the movement. However, while discussing the reporting implications, very few students could visualize that verification of the changes between the year-end and inventory count date may not always be possible. Further, besides inventory, another issue also emerged from the scenario i.e. that it was the first year of audit. The requirement to include other matter paragraph in such a situation was also not mentioned in majority of the cases.

Question 10

This question was divided into three parts. Each part contained a situation and the candidates were required to comment how the audit partner would deal with it. The overall performance was extremely poor as only 3% of the candidates secured passing marks. Part wise comments are given below:

Part (a)

In this situation, the CEO was travelling abroad and was not available on the date of the report and therefore he had offered to sign all representations before leaving. The overall performance was very poor as most of the candidates were unable to grasp that representations should be as near as practicable, before the audit report. Further, very few could specify that it is not necessary that CEO should sign the representation.

Part (b)

This was a tricky situation in which the management had stated in its written representation that "except for the information destroyed in fire, we have provided all the necessary information for the purposes of audit". The performance in this part remained extremely poor.

Most of the students only discussed one aspect i.e. whether the management's stance was reasonable or not. They failed to understand that even if the stance was correct and reasonable, the auditor cannot give an unmodified opinion merely on that basis. However, whether any modification is needed or not would depend on the significance of the information destroyed and the auditor's ability to obtain audit evidence through other means.

Part (c)

According to this scenario the MD of the client had written a letter to the firm that financial statements provided by them are final except for certain immaterial adjustments which would not affect the decision making of the owner and therefore the audit report should be signed and required adjustments should be included in the representation letter. The performance was relatively better, however, only few students commented on the fact that it is not just the owner whose decisions are based on the financial statements; there are other stakeholders also for whom financial statements are important.

Question 11

This question required identification and brief description of open system interconnection (OSI). The performance in this question was quite poor as about 42% students did not attempt this question whereas 16% students could not secure any mark. However, there were good performances as well as about 7% of the students secured full marks.

(THE END)