

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN	
EXAMINERS' COMMENTS	
SUBJECT Audit and Assurance	SESSION Certificate in Accounting and Finance – Spring 2017

General:

The paper was reasonably attempted and the passing percentage was 36%. However, it was much below the passing percentage achieved in the previous attempt i.e. 54%. The decline was mainly attributable to very poor performances in Questions # 1 and 3 which was quite surprising as these were normal questions from frequently tested areas.

Question-wise comments.

Question 1(a)

The requirement was to identify fraud risk factors in the given scenario. The performance was quite poor mainly because the candidates were not able to differentiate between fraud risk factor and Audit risk. Most of the candidates identified audit risks instead of fraud risk factors.

Question 1(b)

The performance in this part was relatively better as compared to part (a). The most common error in this part was that the candidates stated audit risks which were not related to the given scenario. Many students who had already identified the audit risks erroneously while responding to part (a), tried to define audit risk which was not relevant. Many candidates gave definitions of Inherent, Control and Detection risks.

Question 2(a)

In this part of the question, the candidates were required to specify the steps which the auditor should perform to ensure carrying values of inventories is based on lower of cost and NRV. The performance in this part was satisfactory. However, many students gave generalized steps and did not say anything about the observation mentioned in the question. Several students focused on how the NRV is computed which was not required.

Question 2(b)

This was a straight forward question from ISA 560 “Facts Which Become Known to the Auditor after the Financial Statements Have Been Issued”. Majority of the candidates performed well in this part also. However, it appeared that several students had not studied the above ISA altogether. Many such students specified the steps that may be carried out to verify the information given in the scenario, which was totally incorrect.

Question 3

This question contained three situations (parts) and the candidates were required to discuss the possible impact on the audit report and specify the procedures which the auditor may be required to take, in each case. The overall performance was very poor as only 7% of the candidates secured passing marks. A common issue in part (b) and (c) was that many candidates only mentioned that a modified opinion would be issued but did not specify the exact nature of modification. Further comments on each part are given below:

Question 3(a)

The performance was very poor. Only few candidates could identify that change of accounting policy has to be reported as a key audit matter and therefore missed all the related issues. However, the students generally scored marks by mentioning that auditor needs to concur with the change.

Question 3(b)

It was rightly noted by majority of the candidates that refusal to grant written confirmation by lawyer is a scope limitation in gathering audit evidence and would have a consequential impact on the audit report either being qualified or disclaimer being issued. However, some students presumed it to be an issue of management representation and went into a totally different direction.

Question 3(c)

This was a simple situation where the management was unwilling to make certain disclosures. Generally the candidates were able to identify that a qualified opinion would be given but most of them failed to explain clearly about giving details of the nature of information in the basis of opinion paragraph. Further, before making any final decision, the auditor was supposed to bring the issue to the knowledge of those charged with governance. This aspect was rarely covered.

Question 4

This question contained four simple situations [one in part (a) and three in part (b)] and the candidates were required to discuss the threats and the related safeguards in each case. It was well attempted as more than 70% of the candidates secured passing marks. Comments on each situation are given below:

Question 4(a)

Most of the candidates performed well in this part of the question. Some candidates identified self-interest threat which was incorrect. Some candidates did not mention the correct safeguards and stated that while preparing the financial statements, the auditor should not take any management decision which was not appropriate in the given context.

Question 4(b)(i)

The overall performance was good. However, many candidates incorrectly identified self-review threat instead of familiarity threat.

Question 4(b)(ii)

Good performance was witnessed in this part also. However, many candidates also mentioned familiarity threat which was not correct. Some of them even mentioned intimidation threat which was totally incorrect. As regards the safeguards, some of the candidates mentioned that the work carried out by Rashid should be reviewed by a chartered accountant which was not appropriate as the work performed by all team members is reviewed at various stages as a matter of routine rather than in that particular situation.

Question 4(b)(iii)

An average performance was witnessed in this sub-part. Most of the students failed to understand that the threat would only be significant if some extra-ordinary benefit is obtained. Some of them even mentioned that the firm should not continue as the auditor which was quite inappropriate. In fact, the threat if any, was easily manageable by reducing the use rather than refusing the audit altogether.

Question 5(a)

This was a straight forward question in which the candidates were asked to state the matters to be considered at inventory count and majority of the candidates performed well. However, many candidates gave verification steps such as agreement with ledger, valuation of excess/shortages and verification of NRV, which were not relevant in the context of the question.

Question 5(b)

The performance in this part was below average as the candidates generally lacked proper understanding of the cut-off procedures. Many candidates discussed performing the procedures on invoices but did not discuss delivery documents. Many candidates were totally ignorant and mentioned steps such as analytical review, inspection of suppliers/debtors statements, etc.

Question 6(a)

This straight forward question on audit engagement letter was well answered by majority of the students. However, many candidates mentioned the key contents of the letter which was not relevant. Some students completed the tally of four points by repeating the same thing in different words and lost easy marks.

Question 6(b)

The overall performance in this part was quite poor. Only few of the candidates who had studied and could understand the question's requirements responded well and secured good marks. However, most of the candidates completely deviated from the concept and related requirements outlined in the question.

Question 6(c)

This question required course of action to be adopted by auditors if pre-conditions of audit are not present. The overall performance was poor as most of the candidates wasted time in writing the pre-conditions which was totally irrelevant.

Question 6(d)

The performance in this part was below average. Most of the candidates misjudged the requirement and wrote how analytical procedures are performed, whereas the question required the factors which determine the extent to which analytical procedures are used as a form of substantive audit evidence.

Question 7

This question in essence had two requirements i.e. conditions for use of negative confirmations and appropriateness of the use of negative confirmation in the given scenarios. Most of the candidates correctly identified the preconditions for use of negative confirmations although some of them mentioned exactly the opposite of what should have been written.

While discussing the scenario, many candidates did not seem to understand that for sending negative confirmations, all the conditions should be met and it was not enough if some of them were met.

Question 8(a)

A short and straight forward question on management representation which was generally well answered.

Question 8(b)

This part required analysis of scenario and whether it was necessary to obtain representation or not. Most of the candidates rightly stated that representation would be required in case of related parties but erred in the other two cases. They must understand that representation is not a substitute for available audit evidence and that it cannot justify an incorrect accounting treatment.

Question 9(a)

The overall performance in this question was considerably below average and reflected the candidates' lack of knowledge in the area of IT controls. Most of the candidates could not differentiate between general IT controls and application controls and therefore could not give correct examples also.

Question 9(b)

This part was in continuation to the first part and where candidates failed to attend first part, they also erred in this part. Even otherwise, very few candidates seemed to understand that manual procedures exercised by users may provide effective controls at the application level.

Question 10

The question was focused with reference to the requirements of Companies Ordinance, 1984 with regard to auditors' appointment. Mixed responses were seen in response to both parts of the questions. In part (a), only about 25% of the candidates could explain that Term Finance Certificates are not shares and therefore the appointment is valid. In part (b), the position was slightly better as majority of the students were aware that shareholding of auditor in associate also needs to be considered in assessing compliance with eligibility requirements.

(THE END)