

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN	
EXAMINERS' COMMENTS	
SUBJECT Audit and Assurance	SESSION Certificate in Accounting and Finance – Autumn 2018

General:

The overall performance in the paper was good as 55.2% candidates secured passing marks. Most of those who could not perform well were those who have been failing for the past many attempts. They should rethink their approach towards study. The most important thing is to cover the entire syllabus. They should also learn answering the scenario based questions as in many cases they write statements which are not incorrect but are irrelevant to the given situation.

Question-wise comments:

Question 1

In this question the candidates were required to guide their friend who had certain misconceptions regarding audit of financial statements, which were described in the question. The performance in this question was below average as only 33% candidates secured passing marks.

Most of the students missed the following important points:

1. Auditors do not examine majority of the item. Rather, they concentrate on significant items based on their materiality and risk of misstatement associated with them.
2. Unqualified opinion does not imply that financial statements are correct in all respect.

Question 2

This question consisting of two parts was the most poorly performed question as only 7% candidates secured passing marks. Performance in each part is discussed below:

Question 2(a)

The candidates had very little idea as to the aspects that need to be considered in the process of sampling. The performance was extremely poor as the candidates failed to identify the weaknesses in the audit approach, especially the following:

1. Selection of invoices should be made from the sales ledger because if selection is made from invoice files there would be a risk that any amounts posted in the ledger without an invoice would not be detected.

2. Deviation rate for sales cannot be based on overall risk assessment. Inherent risk associated with sales is generally high and should also be considered.
3. Expected deviation rate could not be set at lower level on the basis of overall audit risk unless:
 - Experience of the population from previous audits warrants such a use.
 - Experience from current audit on areas relating to the population justifies this setting

Question 2(b)

The performance in this part was also very poor. Most of the candidates found no harm in accepting the proposal to select other invoices in place of the three invoices which could not be found. Most of those who did object to it, could not explain as to how the auditor should react to it.

Question 3

The overall performance in this question was poor as only 23% candidates secured passing marks. The question was based on a scenario according to which three issues had been identified by the audit team, during the audit. There were two requirements set out in part (a) and (b) of the question. Performance in each part is discussed below:

Question 3(a)

In this part the candidates were required to identify the impact of each of the three issues on the audit report along with proper justification. Impact on the audit report was mostly described correctly but proper justification was not provided. Justification included considering matters such as materiality, whether it was an adjusting or non-adjusting event, etc.

Question 3(b)

In this part, the requirement was to identify the matters which the auditor would like to include in respect of the three issues discussed in the question. It appears that the students did not read the requirement carefully. The most common mistake was that most candidates produced a long list of items which had no relationship with the issues discussed in the question. Furthermore, a number of students identified matters to be included in the management letter instead of management representation letter.

Question 4

The performance in this question was poor as only 26% candidates secured passing marks. About 18% of the candidates did not attempt this question or scored zero marks.

The question required risk of material misstatement at the assertion level. As valuation model was changed, the two assertions which were to be identified were valuation and presentation. Most of the candidates could not identify the relevant assertions or the relevant audit procedures. Most of them kept on discussing the proficiency of the expert, which were not irrelevant and it had specifically been mentioned in the question that these were not required.

Question 5

This question consisted of two parts. This was quite an easy question. However, the overall performance was just average as 54% candidates secured passing marks. Part wise performance is discussed below:

Question 5(a)

In this part the candidates were required to identify the possible threats and discuss their significance and the relevant safeguards. Generally the performance was good. Some of the common mistakes are discussed below:

- Many candidates mentioned relevant as well as irrelevant threats and loss marks. Some of them even mentioned five to six threats. It must be noted that there only a limited number of threats and hence if the students mention irrelevant threats along with the relevant ones, they would lose marks.
- Significance of the threat were not discussed.

Question 5(b)

It was a simple and easy question which was well answered by most of the candidates. However, many candidates missed this part of the question altogether.

Question 6

Good performance was witnessed in this question as 73% candidates secured passing marks. Performance in each part is discussed below:

Question 6(a)

The most common mistake in this part of the question was that instead of identifying the audit steps to ensure that all related party transactions have been disclosed, many students listed the steps to verify the already identified related party transactions.

Question 6(b)

The most common error in this part of the question was that many candidates considered it as an unintentional error and ignore the possibility of intentional error. Hence, they could not identify some very key steps.

Question 7

This question consisted of three parts. The overall performance in this IT based question was below average as only 41% candidates secured passing marks. Performance in each part is discussed below:

Question 7(a)

The requirement was to describe a system log file and list any four types of information which the system log file contains.

This proved to be a simple question and was well answered by most of the candidates.

Question 7(b)

In this part the requirement was to differentiate between general IT controls and application controls. The performance in this part remained poor as most of the candidates were unable to appreciate the principal difference i.e. purpose of application controls is to establish specific control procedures over a particular application; whereas, general IT controls refer to the overall controls applicable to the entire computer systems and procedures.

Question 7(c)

Mixed performance was witnessed in this part of the question. Many students scored full marks whereas there were many who could not secure any mark. The most common errors were as follows:

- Some candidates failed to understand the question altogether and mentioned input controls, output controls and processing controls.
- In (iii) many candidates mentioned sequential check which was totally incorrect as cheque numbers are not necessarily in sequence.

Question 8

This question consisted of four parts. It was the best attempted question as 84% candidates secured passing marks. Part wise comments are given below:

Question 8(a)

The performance in this a part was average. About 20% of the candidates secured full marks but many candidates were not clear. Some of the points mentioned were totally incorrect such as embezzlement of cash, posting of amounts in incorrect accounts, reporting on going concern basis despite serious uncertainties, etc. Further, some of the points were too general such as overstatement of income, understatement of expenses, alteration of accounts, etc.

Question 8(b)

This was a very easy question and almost every student performed well.

Question 8(c)

In this part, the requirement was to discuss the auditors steps where the management refuses to allow sending confirmation to certain parties. This area had been tested several times in the past but the performance was good except in case of very weak students i.e. those whose total marks were less than 30.

Question 8(d)

In this part the candidates were required to mention six tests of controls related to dispatch of goods and invoicing. The performance remained average as most of the students included irrelevant controls to reach the tally of six. These included controls related to credit limits and steps such as observing the procedures. A common mistake was that according to many candidates dispatch notes are prepared on the basis of sales invoices, whereas it is the other way round.

(THE END)