

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

General:

The overall performance in this attempt was much better than the previous attempt as the passing percentage increased from 14% to 29%. However, the performance in questions 4, 7, 8 and 9 was quite poor. A clear observation was that students perform well in straight forward memory based questions but reflect poor knowledge in scenario based questions.

Question-wise comments:

Question 1

The overall performance in this question was quite good as 74% of the candidates secured passing marks. The performance in part (b) was excellent as a significant majority of the students got high marks. In Part (a) the students generally wrote correctly that being indebted to the company disqualifies a person from becoming auditor and also mentioned credit card limit of Rs 1 million. But most students wrongly concluded that Hatim can be appointed as auditor if he clears his dues before the commencement of audit.

Question 2

In this scenario based question the candidates were required to comment on whether the suggestion to circulate negative confirmation was appropriate in the given situation and to suggest an alternative approach if the suggestion was not considered appropriate.

The overall performance was quite satisfactory as 39% of the candidates secured passing marks. Many students wrote about the four conditions necessary for opting for negative confirmation but did not identify the conditions which were not being met in the given scenario. Most students also commented that CFO's offer should not be accepted but were unable to conclude and suggest the required way out to tackle the situation.

While mentioning the alternate approach, a lot of students mentioned about circulating the confirmations on sample basis. This was not appropriate as the confirmations are sent to the debtors on sampling basis when the population comprises of a large number of debtor balances even if there is no time constraint.

Question 3

This was a simple question in which the requirement was to guide the audit manager about selecting areas where direct assistance of internal auditors can be utilized; considering the given scenario.

28% of the candidates secured passing marks in this question. However, it appears that most of the candidates had not studied this area as 51% of the candidates secured one or less mark. Many students did not read the question carefully and instead of providing guidance for carrying out the selection of areas, they carried out the selection themselves.

Question 4

This question consisted of two parts. Part (a) was further sub-divided into two sub-parts. Each sub-part contained a scenario and the candidates were required to discuss how they would deal with each scenario. In part (b), the requirement was to specify two audit procedures in relation to the completion assertion in case of trade payables. The overall response was quite poor as only 11% candidates secured passing marks. Comment on each part/sub-part is given below:

Question 4(a)(i)

Though some of the students produced very precise answers, most of them were unable to assess the situation correctly. A significant number of students tried to relate it with going concern issue which was totally irrelevant. Some of them only discussed the materiality of the amount involved without commenting on whether the accounting treatment was correct or not. Moreover, majority of the students treated Rs. 50 million i.e. the amount further required to complete the project while considering the materiality which was incorrect as the amount in question was Rs. 100 million i.e. the amount which had been recognised as intangible. Furthermore, some of them simply stated that the accounting treatment was incorrect but did not explain why.

It was also observed that despite that the profit for the year and the value of the intangible were mentioned in the question, students were not able to conclude that whether the effect of the misstatement would be material or pervasive and discussed consequences of both possibilities.

Question 4(a)(ii)

In this 7 mark question, most of the students correctly identified the going concern issue but failed to explain how the auditor should deal with the situation. Most of them only discussed the impact on the audit report assuming that the going concern assumption was no more valid, without specifying any measures to assess the situation. They failed to realise that since the plant was fully insured and the company had been earning handsome profits, it was more probable that the going concern assumption was still valid. On the other hand, many students did not feel the need to discuss the going concern issue at all and stressed only upon the recoverability of the insurance claim. A number of students mentioned steps such as verification of purchase price of the plant and recalculation of written down value, etc. which were totally irrelevant.

Question 4(b)

This part requiring identification of two procedures to be performed in relation to completeness assertion for trade payables was also answered in below average manner. Most of the students mentioned steps regarding verification of the identified liabilities rather than ensuring that all payables have been recognised.

Question 5

The overall performance in this question was average as 35% of the candidates secured passing marks. The question consisted of two parts. Part (a) was further sub-divided into two sub-parts. Each sub-part contained a scenario and the candidates were required to discuss the threats and related safeguards in the given situations. In sub-part (i) the performance remained below average as majority of the candidates simply stated whether gifts should be accepted or not without considering the significance of the gift. Most of those who were of the view that the gifts should not be accepted, did not give any appropriate reason thereof. Some of them identified intimidation and advocacy threats which were totally irrelevant. Performance in sub-part (ii) was quite good as the candidates seemed to understand the situation well.

Performance in part (b) was quite poor. In sub-part (i) mostly, they raised the issue of lack of knowledge on the part of Amjad. The critical issues i.e. emergence of self review threat and the threat to confidentiality were rarely discussed. In sub-part (ii) where the requirement was to list down the actions the firm should take to ensure that such situation is avoided in future, mostly the candidates focused on CPD activities related to IFRSs only and overlooked the need for guidance regarding appropriate behaviour at the client, disciplinary procedures and compliance with fundamental principles.

Question 6

This question consisted of six short questions. The performance was good as 61% of the candidates secured passing marks. Brief comments on performance in each part are given below:

- (a) Most of the students were able to identify points such as early identification of significant issues and timely/efficient conduct of audit. However, the advantage of better resource planning was generally missed.
- (b) Most of the students could only identify just one risk i.e. risk of giving undue favour. The other risks include failure to identify all related party transactions, risk of fraud, etc.
- (c) The performance in this part was extremely poor. Many candidates did not attempt it altogether. The issue of integrity of management and how the auditor should handle it were rarely mentioned.
- (d) The performance remained clearly divided between the good and the poor performing candidates i.e. between those who secured full marks and those who couldn't obtain any mark. Most of the students who secured passing marks in the paper were able to secure high marks in this part as well.

- (e) The performance in this part was good as most of the candidates were able to identify at least three controls. Poor performing candidates were those who tried to fulfill the requirement of four controls but did not care to ensure that they identify relevant controls only.
- (f) The performance remained average. Some students gave pertinent answers but many other seemed confuse and tried to mention procedures related to subsequent receipts, subsequent warranty claims, subsequent sale prices to assess NRV, etc. which were totally irrelevant.

Question 7

In this question the candidates were required to identify 3 control weaknesses and suggest 2 mitigating controls for each weakness in a scenario where changes in system had caused the invoicing system to malfunction and close down for 4 days. The overall performance remained below average as only 21% of the candidates secured passing marks. A large number of candidates identified issuance of invoices manually as a control weakness which was incorrect as it was just a contingency measure rather than a routine practice.

Question 8

This question on fraud risk factors was poorly responded as only 15% of the candidates secured passing marks. In part (a) where fraud risk factors were to be identified, most of the candidates just copied the text from the question without elaborating as to why that particular fact is a fraud risk factor.

In part (b), students were required to list down the actions which the auditor should take in respect of the identified fraud risk factors. The performance in this part was better, though comprehensive answers were rarely given.

Question 9

In this question six steps followed by an organisation during its procurement process were mentioned and the candidates were required to identify the weaknesses in internal controls, their possible effects and give recommendations.

The performance in this question was much below expectation as only 22% of the candidates secured passing marks. Answers were not up to the mark in many cases so the scores were not very good in this question.

Answers were generally flooded with repeated points whereas other important ones were missed. Lack of proper criteria for selecting suppliers and pre-numbering of purchase orders remained un-noticed by most of the students. Some students wrote about issuing invoices rather than receiving invoices. Some students merely repeated the words written in the question as the weaknesses without explaining why these were considered as a weakness.

(THE END)