

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN	
EXAMINERS' COMMENTS	
SUBJECT Audit, Assurance and Related Services	SESSION Certified Finance & Accounting Professional (CFAP) Examination - Winter 2016

General

Quite a poor performance was witnessed in this attempt. It was noticed that the candidates were not prepared on the new areas that have been introduced in the syllabus i.e. special reports, which were tested in Questions 5 and 6. Poor performance was also witnessed in Question four which required knowledge about audit report of unlisted companies which was most probably due to selective studies. However, poor performances were also witnessed in Questions 2 and 3 which was quite surprising as these were routine questions on issues which have been tested quite frequently.

Question-wise Comments

Question 1

This question pertained to Key Audit Matters section of the audit report. It consisted of four parts and in each part, a situation was given and the candidates were required to give their advice in the given context. Performance in each part is discussed below:

Question 1(a)

Majority of the students could not explain the main issue i.e. that other key audit matters can be reported in the case of an adverse report also but reporting of such matters does not imply that the financial statements as a whole are more credible than would be appropriate in the circumstances. Many students were of the view that Key Audit Matters are not reported where an adverse report is issued.

Question 1(b)

This was fairly answered by majority of the students as they correctly identified that matters giving rise to a qualification are not discussed again in the Key Audit Matters section, however, reference to basis of qualified opinion is included therein.

Question 1(c)

Average performance was witnessed in this part as only about 50% of the students could state categorically that prior period items would not be included in Key Audit Matters even if opinion in the audit report has been expressed in respect of current as well as the prior period.

Question 1(d)

This proved difficult as only few candidates were able to specify the circumstances under which the client's request for non-disclosure could have been accepted by the auditor. Most of the students were of the view that the matter had to be disclosed in any case.

Question 2

This question was based on a scenario whereby a company was facing a situation in which its status as a going concern seemed to be in doubt. The requirements were specified in two different parts as discussed below:

Question 2(a)

Overall, the students failed to understand the crux of the requirement which was to list the details which the auditor would expect in the management's plan regarding turnaround of the company. Instead, most of them tried to narrate the procedures which the auditor would perform to assess the plan. Some of the students restricted themselves to the recommencement of operations and ignored the other aspects. Many students kept on repeating the same point again and again. Such practice not only results in wastage of precious time which could be better utilized in planning the other answers but also results in mistakes as contrary views are sometimes expressed which exposes the candidate unnecessarily.

Question 2(b)

Performance in this part was the worst. Most of the students focused on explaining the concept of Key Audit Matters rather than the key aspects or risk that the audit team should focus on besides the issue of going concern. Many students seemed to be in continuation of part (a) and kept on discussing the issue of commencement of operations.

Question 3

This question contained extracts from the financial statements of a company and certain other information about some aspects of the business. As discussed earlier, despite being a straight forward question, the overall response was quite poor. The requirements were broken up into two parts. Comments on each part are given below:

Question 3(a)

The requirement was to evaluate the overall control environment which includes both the positive and the negative aspects. Most of the students identified that the entity was closely held but failed to cover the resulting risks. Further, most of them failed to cover the positive aspects which include that internal audit department is headed by a chartered accountant and chairman of the audit committee was an independent member of the Board.

Question 3(b)

The requirement was to identify the areas of risk for the audit and the planned audit approach. The performance remained poor because most of the students focused only on one or two areas and ignored the rest. Those who stressed on the going concern aspect ignored some of the other issues such as risk as regards the opening balances, risk of fraud and overstatement of deferred tax asset. On the other hand, some of the candidates ignored the going concern issue altogether. Some of the students identified the risk that discount would not be accounted for, which was totally irrelevant as lower prices by a new supplier does not mean that discount has been offered.

Question 4

The overall performance was below average although some of the students (about 2%) did really well and secured full marks also. About 15% of the students could not secure any mark and most of them stated that there are no differences between the two reports. Many candidates identified the key audit matters as the only difference.

Question 5

The overall performance was quite poor. Most of the students laid all their emphasis on appointment and evaluation of the expert, which was just one of the many procedures that needed to be performed. For other relevant points, the candidates are advised to refer to ICAP's suggested answers.

Question 6

This was the worst answered question of the attempt as only 16% of the students could secure passing marks whereas more than 50% of the students could not secure any mark. The requirement was quite straight forward because drafting of the report is usually considered easy at this level but utter lack of knowledge resulted in poor performance. The candidates are advised to seek guidance in respect of this question from ICAP's suggested answers.

Question 7

This question consisted of two scenarios and in each case the candidates were required to evaluate the situation and discuss the course of action to be taken by the auditor. Each scenario (part) is discussed hereunder:

Question 7(a)

According to the scenario given in this part of the question, a company had recognized late payment charges of Rs. 2.5 billion as due from the government and during the previous year the auditor had qualified the report in this regard. This year, the auditor was informed that the government has agreed to pay Rs. 2.0 billion and that the management was willing to provide written representation in this regard but did not want the auditor to send a confirmation request.

The Overall performance was average as about 20% of the students did really well. However, among the rest, majority could not explain that the written representation would not be considered a reliable audit evidence in the given situation and the reason thereof. Further, most of the students did not say anything about the significance of the amount. Moreover, while discussing the course of action for the auditors, communicating with those charged with governance was discussed by a small proportion of the students only.

Question 7(b)

Surprisingly, majority of the students were not able to identify that transaction is a related party transaction because a director of the company also held 20% shares in the other company (the buyer). Quite obviously, such students could not specify the appropriate course of action available to the auditor.

Besides the above, most of the students failed to identify the depreciation and impairment aspects as well. Many of the students failed to evaluate the situation properly including materiality.

Question 8(a)

The performance in this part of the question was satisfactory. The only point which caused confusion was that the company had been listed during the current year only and hence the rotation of the partner was not necessary under the given circumstances. Moreover, very few could comment on the second possibility i.e. where firm was unable to find suitable replacement. The candidates are advised to seek further guidance in respect of this question from ICAP's suggested answers.

Question 8(b)

According to the scenario in this part of the question, a firm has received a request from one of its audit clients to evaluate the internal audit function and give recommendations for improvement. The performance was below average as most of the students were unable to realize that since the work did not involve any management decision or taking management responsibility, therefore it comes under the purview of allowed services under the code of ethics and listing regulations.

(THE END)