

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN	
EXAMINERS' COMMENTS	
SUBJECT Audit, Assurance and Related Services	SESSION Certified Finance and Accounting Professional (CFAP) Examination - Summer 2018

General:

The overall performance in this attempt with passing ratio of 12.5% was slightly better than the previous attempt where the passing ratio was 11.2%. However, such low passing percentages are a matter of concern especially in a subject in which all the students are obtaining extensive training. The matter of concern is that the performances were poor in all the questions except one, with passing percentages ranging between 7 to 17%. Further, in all these questions, between 25 to 60 percent of the candidates could not even score 25% marks.

Question wise comments are given below:

Question 1

This was a standard question on identification of risks and the key audit procedures to be performed in respect thereof. Despite the fact that questions in this area appear in every attempt, the performance of the students was very poor as only 14% of the candidates secured passing marks. A significant number of students were totally unprepared as about 40% of the candidates secured 5 or less marks in this 20 mark question.

Majority of the candidates were able to identify some of the risks but were unable to identify the relevant audit procedures. Further, risks related to segment reporting, onerous contract and foreign exchange translation were identified by few students only. A major issue with many students was that they gave generalized steps such as “ensure that appropriate provision has been made” instead of specifying what steps have to be taken in this regard. Some of the other common issues are discussed below:

- With regard to overstatement of revenue / understatement of expenses, hardly any student mentioned that the intention may be to show better results to be able to issue right shares at a much higher premium. Moreover, the students seemed to be unaware of the areas which should be scrutinized when such a risk is identified and only few could mention steps related to review of journal entries, accounting estimates, transactions outside the normal course of business, etc.
- With regard to assets held for sale the review of board minutes and criteria for classification of non-current assets as held for sale were rarely discussed.
- Somehow, a number of students wasted a lot of time in discussing the issue of going concern which was hardly relevant as the company had earned substantial profits this year as well as in the past also.

- With regard to segment reporting procedures for ascertaining whether any other segment had fulfilled the criteria for being reported as a separate segment was mentioned by few students only.

Question 2

This was a scenario based question in which the candidates were required to discuss the matters which they would focus while performing a due diligence review under the given scenario. They were also supposed to identify any additional information which they may require during the review. The performance in this question was extremely poor and only 7% could secure passing marks. About 62% of the candidates secured three or less marks in this 15 mark question.

Majority of the students seemed to have very little idea of the important aspects which are considered in a due diligence review. Accordingly, most of the answers revolved around analyzing the data given in the question irrespective of the significance of each type of information. Moreover, very little or no emphasis was placed on other important areas such as (i) role of partners and in the absence of any experience of similar business, how would the acquirer manage the business (ii) is there any key staff and would they continue (iii) terms of employment of the existing delivery staff who would have to be relieved, (iv) are the financial statements audited and (v) other off balance sheet items. Even the analysis of data was weak in many cases as the following matters were discussed by few students only:

- Why the finance cost remained constant in 2014 and 2015
- Which assets have been leased and would the lease continue
- Why there is no provision for taxation
- What are the details of operating expenses

While discussing the other important information/documents required, items like bank details, legal advisor's details, contracts with restaurants and suppliers, etc. were mostly ignored.

Question 3

In this question an audit report drafted by an audit team member was given and the candidates were required to critically analyse the audit report i.e. identify the apparent errors. This was expected to be a high scoring question but even in this question, the performance was very poor as only 13% candidates secured passing marks. About 30% of the candidates secured two or less marks in this 11 mark question.

Majority of the students identified only two or three mistakes in the draft report, which were definitely not enough to justify a question worth eleven marks. Some very basic statements were incorrectly phrased in the draft report but they were picked up by only a handful of students like the words “conclusively” and “CFO has refused” and use of acronyms for international accounting standards were very obvious mistakes.

Question 4

This question required the candidates to mention the key audit procedures for share based payment option described in the given scenario. The performance in this part was quite satisfactory as 48% of the candidates secured passing marks. However, about 25% of the candidates were totally unaware of this area and obtained one or less mark in this six mark question.

Though many of the students performed very well; yet there were several others who had no idea of the key issues involved such as the vesting period, fair value of share options and the assumptions used, forecast of employee turnover rates, etc. Many candidates produced lengthy discussion on the competency and integrity of the management expert although it was mentioned in the question that this aspect was not required to be discussed.

Question 5

Code of Ethics is considered a favourite area of the students; however, in this attempt the performance was poor in this area also. Only 17% of the candidates secured passing marks and about 20% of the candidates secured three or less marks in this 15 marks question.

Majority of the students were only able to obtain a few marks on the basis of their comments on shareholding of the engagement partner's wife's. Most of the candidates tried to give generalised comments on the scenario as a whole instead of analyzing each situation separately.

Many students did not consider the partners giving non-audit services as part of audit team and hence made incorrect conclusions. Similarly, only a few students touched on the threats arising due to holdings of other employees as majority concluded that no threats would arise due to holdings of other employees.

Question 6

This question consisted of two independent parts. Only 15% of the candidates could secure passing marks in this question. Part wise comments are given below:

Question 6(a)

According to the scenario given in the question the following matters were highlighted with regards to a listed company AFL:

1. It had incurred gross loss as because of shortage of gas supply, its plant could not run on optimum capacity.
2. AFL had made arrangements with a gas supply company which is expected to convert gross loss into gross profit.
3. Long-term loan had been restructured and classified as a short term loan.
4. Method of recording depreciation has been changed.
5. A paragraph from the directors' report was reproduced.

The requirement was to discuss what matters the auditor would need to discuss with the management (other than going concern issues) and the possible impact on audit report if the management does not agree with the auditor's point of view.

Most of the students picked up the obvious points but failed to identify the non-obvious ones. Some of the errors also resulted because of not reading the question carefully. Some such issues are discussed below:

- It was clearly mentioned in the question that the restructuring of loan has been agreed after year-end. Therefore, they should have mentioned that restructuring of loan is a non-adjusting event and that any change in the classification of liability from current to non-current would not be done this year. Instead, most of them mentioned that the auditor needs to consider whether it is an adjusting or a non-adjusting event.
- No questions were raised as to how total number of units which the plant would produce has been estimated.
- Regarding the change in depreciation method, a lot of students perceived it as a change in accounting policy and discussed about its retrospective application whereas under IAS 16 change in depreciation method is to be accounted for as a change in accounting estimate.
- Regarding inconsistencies between auditor's information and director's report, only few students raised question regarding director's claim that the company would be able to record profits in the next year and their claim regarding improvement in current ratio which could even reverse after appropriate classification of long term loan.

Question 6(b)

In this question, the candidates were required to draft how the given matter would be reported in the key audit matter section. The issue pertained to petition filed by a competitor where the client's legal advisor was unable to give any estimate about the outcome and consequently no provision had been made but full disclosure had been given. The candidates were allowed to assume further details if necessary.

The performance of the students in this part was much better. However, in many cases the answers suffered on account of poor English as the candidates produced meaningless sentences.

Question 7

In this question the candidates were required to specify the controls which they would expect with regard to processing of journal entries and what action should the auditor take if serious deficiencies are identified during the control testing process.

Some basic controls and consequent actions were pointed out by majority of the students but only 17% could secure passing marks.

Controls like documented policies and procedures, standardized forms for standard journal entries, automated exception reports for un-usual entries were hardly discussed. Similarly, auditors' actions like use of computer assisted audit techniques, increasing the extent of substantive testing and assessing risk of management override of controls were rarely mentioned.

(THE END)