

**INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN**

**EXAMINERS' COMMENTS**

| <b>SUBJECT</b>      | <b>SESSION</b>   |
|---------------------|--|
| Audit and Assurance | Certificate in Accounting and Finance<br>– Spring 2021 |

**Passing %**

| 1   | 2   | 3   | 4   | 5   | 6   | 7   | 8   | 9   | Overall |
|-----|-----|-----|-----|-----|-----|-----|-----|-----|---------|
| 25% | 55% | 44% | 41% | 53% | 24% | 31% | 57% | 56% | 41%     |

**General comments**

The overall passing percentage in this attempt was 41% as compared to 27% in the previous attempt. However, it was commonly observed that the examinees commenced writing answer without fully comprehending the requirements of the question and consequently often missed out key aspects of the answer. For example, in Q.1, many examinees failed to discuss the correct assertions covered by confirmation procedure; in Q.2(b), many examinees failed to discuss the matters to be considered in first year of audit after appointment; and in Q.9, most examinees did not discuss the evaluation of threat. All examinees are once again advised to read the requirements of the question carefully before writing the answer.

**Question-wise common mistakes observed**

**Question 1**

- Examinees failed to identify the correct assertions addressed through balance confirmation.
- Examinees did not mention that the balance confirmation was carried out at an interim date and the related audit procedures to be performed in this respect.
- In case of Beta, examinees treated the confirmation reliable and appropriate on the grounds that it was received directly by the auditor. They did not consider the fact that resending of confirmation by the client through its rider affected its reliability.
- Some examinees failed to mention the alternate procedures in the absence of reliable confirmation response.

**Question 2(a)**

Examinees performed well in this part of the question.

**Question 2(b)**

Many examinees mentioned procedures focused on matters to be considered before appointment of auditor. They did not pay attention to the fact mentioned in the question that the auditor has already been appointed.

### **Question 2(c)**

Examinees did not mention about documenting the new or additional audit procedures performed, audit evidence obtained and conclusions reached.

### **Question 3**

Examinees failed to mention the following audit procedures:

- Discuss with management the terms of the arrangement, and whether there is any contract or agreement in place.
- Request management to identify the fair value of the new arrangement.
- Inquire from the management that whether this arrangement has been authorized.
- If the management does not disclose the arrangement in the financial statements, then discuss the non-disclosure with those charged with governance.

### **Question 4**

- Most of the examinees mentioned irrelevant and incorrect control weaknesses such as procurement system is computerized.
- Examinees did not appropriately discuss the implications of identified weaknesses.
- Examinees did not identify the following control weaknesses:
  - GDN issued by supplier not being part of documentation and its related implication and recommendation.
  - There is no system of quality inspection.

### **Question 5(a)**

- Fraud risk factors were correctly identified by the examinees but they did not further discuss them.
- Examinees did not correctly classify the fraud risk factors into incentive, pressure, opportunity or attitude.
- Excessive involvement of CEO in application of accounting estimate was not identified.

### **Question 5(b)**

Examinees did not mention the following action that an auditor should take on identification of fraud risk factor:

- Incorporating an element of unpredictability in determining the nature, timing and extent of audit procedures.
- Designing and performing further audit procedures whose nature, timing and extent are responsive to the assessed risk of material misstatements.
- Evaluating whether the selection and application of accounting policies by the entity, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings.

### **Question 6(a)**

Examinees did not mention the following audit procedures:

#### **In the case of Elrond Pakistan Limited:**

- Assess whether there was any contract with the foreign customer.
- Review the contract to identify that whether any recovery can be made.
- Determine whether the inventory has any alternative use.

#### **In the case of Stellar Limited:**

- Discuss with management that whether there are any contingency plan(s) in place for the loss of this contract.
- Review the negotiations with EL regarding the contract renewal being carried out.
- Inquire the management that whether any new customer has been identified subsequently.

### **Question 6(b)**

#### **In the case of Elrond Pakistan Limited:**

- Examinees considered the matter to be pervasive, which was incorrect.
- Examinees erroneously linked the scenario with uncertainty in respect of going concern.
- Examinees confined their answer to the inconclusive statements that the qualified opinion would be expressed if misstatement is material and adverse opinion would be expressed if misstatement is material and pervasive.
- Examinees did not mention that if no major adjustment was required in the inventory value and the management did not record that adjustment, then the auditor was required to combine it with other misstatements to assess whether the combined effect was material.

#### **In the case of Stellar Limited:**

- Examinees did not mention the implication on audit report in case the management did not assess the entity as going concern.
- Instead of including a paragraph titled Material Uncertainty Related to Going Concern, examinees incorrectly mentioned about inclusion of an emphasis of matter paragraph.

### **Question 7**

- Examinees failed to identify that the offer for signing the representation on 4 March 2021 cannot be accepted because further matters requiring representation might arise during the intervening period.
- Examinees did not comment on the CEO's signing on the representation on 16 March 2021 i.e. after signing of the audit report.
- Many examinees failed to suggest the best course of action.

### **Question 8(a)**

Examinees performed well in this part of the question.

**Question 8(b)**

Examinees generally performed well in this part of the question. However, few examinees did not properly identify that there should be segregation between tasks of programmers and computer operators.

**Question 8(c)**

Examinees performed well in this part of the question.

**Question 9**

- Examinees did not evaluate the significance of the threats.
- Examinees did not identify the need to ensure formal communication of refusal to the audit manager and that there would be no threat if the above was ensured.
- Examinees concluded that the audit firm cannot enter into any business relationship with the audit client. In fact, it can enter into such relationship subject to compliance with certain safeguards.
- Examinees did not discuss about negotiating a different basis of deciding the fee related to taxation services.

***(THE END)***