

<b>INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN</b>	
<b>EXAMINERS' COMMENTS</b>	
<b>SUBJECT</b> Audit and Assurance	<b>SESSION</b> Certificate in Accounting and Finance (CAF) Spring 2023

### Passing %

Question-wise								
1	2	3	4	5	6	7	8	Overall
51%	14%	17%	46%	33%	20%	67%	20%	36%

### General comments

Overall, the performance of the examinees in this paper was satisfactory, and the results have slightly improved compared to the previous session.

However, below-average performances were observed in question numbers 2, 3, 6, and 8. These performances can largely be attributed to selective studies and a failure to identify and apply relevant knowledge to scenario-based questions. Examinees are advised to first understand the core issue(s) being examined in the question and then identify and apply the relevant provisions of auditing standards/code of ethics to address that issue.

It was also observed that examinees do not carefully read the requirements of the questions and provide irrelevant answers. This issue is further discussed in the comments for question numbers 2, 6, and 8.

### Question-wise common mistakes observed

#### Question 1

- Examinees were not able to differentiate between audit risk and business risk and used both terms interchangeably.
- Examinees failed to identify:
  - the business risk associated with borrowing facilities, resulting in a failure to identify the related audit risk.
  - the business risk associated with ERP, as well as related audit risks.

#### Question 2(a)

- Examinees failed to identify and evaluate the threat posed by the strict deadline for the completion of the audit.
- Examinees discussed safeguards that were not required.

**Question 2(b)**

- The question required the evaluation of threats in the context of accepting the engagement. However, the examinees primarily focused on client acceptance procedures.
- Examinees failed to discuss that specialized knowledge was required for auditing an insurance client.
- Examinees also failed to mention that only one partner possessed relevant experience, raising the question of who would conduct the mandatory quality control review.
- The following safeguards were generally not mentioned:
  - Providing adequate training to staff members to ensure that only personnel with the necessary competencies are assigned to the engagement.
  - Hiring staff members who possess experience and knowledge of the insurance industry.

**Question 3(a)**

Examinees displayed a lack of understanding regarding how to project misstatements when using stratified sampling. They failed to mention that if a class of transactions or account balance has been divided into strata, the misstatement should be projected for each stratum separately. These projected misstatements for each stratum should then be combined when considering the potential impact of misstatements on the total class of transactions or account balance.

**Question 3(b)**

Examinees were able to provide only one example of a risk at the financial statement level. The majority of examinees focused solely on the example related to management overriding internal controls, failing to mention other potential risks.

**Question 3(c)**

Most of the examinees incorrectly mentioned that the partner can always remove their review remarks after the final assembly of the audit file.

**Question 4(a)**

- Examinees failed to evaluate the possibility that transactions with related parties may not be under normal market terms or may be outside the normal course of business.
- Examinees did not mention the following audit procedures:
  - Inspect the underlying contracts or agreements and evaluate whether the terms of the transactions are consistent with management's explanations.
  - Compare the credit period given to SPL with one or more unrelated parties.
  - Compare the terms of the related party transaction to those of an identical or similar transaction with one or more unrelated parties.
  - Send confirmation to the newly identified related party to confirm the transactions conducted and the outstanding balance.

**Question 4(b)**

The following representations were generally not mentioned:

- Whether those charged with governance have financial or other interests in the related parties or the related party transactions.
- Whether the transactions have been carried out at arm's length.
- Whether those charged with governance have approved the related party transactions that materially affect the financial statements.
- Whether those charged with governance have made specific oral representations to the auditor regarding the details of the related party transaction.

**Question 5**

- Examinees failed to understand that the decrease in demand and the non-operational status of a production plant indicated impairment. Consequently, examinees did not mention any audit procedure related to this matter.
- Examinees also did not discuss the implication of the impairment on the audit report.

**Question 6**

- Examinees mentioned audit procedures that were not required.
- Examinees did not evaluate the following aspects and their related reporting implications:
  - Fraudulent financial reporting, particularly if management is involved in tax evasion.
  - Contingency related to the matter that may require disclosure in the financial statements or recognition of a provision.

**Question 7(a)**

The majority of examinees overlooked the fact that the "other matter" paragraph included in the auditor's report refers to a matter that is separate from those presented or disclosed in the financial statements.

**Question 7(b)**

Examinees failed to mention that auditors can also request information from any subsidiary undertaking of the company, as well as from any officer, employee, and auditor of the subsidiary company.

**Question 7(c)**

Examinees omitted the following points when evaluating the objectivity of the internal audit function:

- Whether there are any restrictions in place regarding the communication of findings to the external auditor.
- Whether the internal audit function team is a member of professional bodies.

**Question 8(a)**

- The majority of examinees failed to recognize that only controls related to the existence of inventory were required. Consequently, they mentioned controls and test of controls that were not necessary for the given scenario.
- Examinees did not mention the following test of controls:
  - During attendance, verify the selection of areas, the instructions given, and the process of the recounts performed.
  - Select previous weekly recounts performed during the year and review the documentation of the counts performed.
  - Inquire whether there is a process to ensure that each area is counted once in each quarter.
  - Review whether the adjustments are backed with the supporting documentation of inventory count.

**Question 8(b)**

- Instead of mentioning the substantive tests that can be performed based on the information provided in the question, the majority of examinees mentioned general audit procedures related to inventory.
- Examinees did not mention the following substantive tests:
  - For each item on the schedule, multiply the lower of cost and selling price quantity, and list any items where this figure does not agree with the year-end valuation.
  - List any items where the date of the last purchase was more than, say, one month ago, as this may indicate that the product is obsolete or damaged and may require a write down.

***(THE END)***