

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN**

**EXAMINERS' COMMENTS**

<b>SUBJECT</b>	<b>SESSION</b>
Audit, Assurance and Related Services	Certified Finance and Accounting Professional (CFAP) Examination Summer 2021

**Passing %**

Question-wise						Overall
1	2	3	4	5	6	
31%	47%	22%	49%	40%	2%	21%

**General comments**

The passing percentage in this session was 21% which is slightly lower than passing percentage of 25% in the previous session. The main reasons of this decline were selective study and poor performance in the area of group reporting. Further, it was also commonly noted that examinees reproduced entire code of ethics and auditing standards in their answers without giving due consideration to the given scenario and requirement of the question. Examinees are therefore once again advised that they should amend their answers as per the requirement of the question. Furthermore, it was also observed that in questions requiring reporting implications, examinees mentioned all reporting implications and left the decision of material or pervasiveness on the examiner. Examinees are advised that they should clearly mention the relevant modification which may be made as per the given scenario.

**Question-wise common mistakes observed**

**Question 1(a)**

- It seemed that examinees did not read the question carefully and consequently they did not answer the question in the context of implication related to revenue earned from the clients.
- Examinees only mentioned safeguards for that client whose revenue exceeded 15% of the firm's total revenue. They did not evaluate the revenue in terms of revenue earned by each partner and office of the firm.
- Examinees also did not discuss the other qualitative aspects such as commission earned by one of the partners, first multinational client, etc.

**Question 1(b)**

- Examinees reproduced the requirement of the code of ethics for both clients without realizing that there were separate safeguards for both clients.
- Examinees did not mention about communication of the outstanding fees to those charged with governance and to the audit committee.

**Question 2**

Examinees failed to identify the risks relating to provision of penalties from the regulator and the multinational company, provision for sales return, understatement of marketing expenses and overstatement of sales and their related audit procedures.

**Question 3(a)**

- Examinees did not mention about obtaining the working of the future cash flows of the bonds (interest and principle) prepared by the management and review working to authenticate it with terms of bonds and the discount rate used by the management.
- Examinees also did not mention about checking that the company has complied with all the regulatory compliances for the issuance of the bond.

**Question 3(b)**

- Examinees did not comprehend that management expectation has no relevance when computing debt and equity component on a compound instrument.
- Examinees were not cleared about the reporting implication due to this misstatement and mentioned inconclusive reporting implication i.e. qualify the report, if material and express adverse opinion, if pervasive.

**Question 4(a)**

Some of the examinees did not mention the following:

- Read minutes of BOD meetings for management discussion and approval of the sale and leaseback transaction.
- Review client workings for the computation of the present value of the lease payments and whether the client has recognized the right-of-use asset at the correct amount.

**Question 4(b)**

Some of the examinees did not mention the following:

- Consider informing the intended users and other known third parties users about the in-appropriate reference.
- Consider seeking legal advice regarding the firm's rights and obligations.

### **Question 5**

- Examinees produced verification procedures which were related to an audit of financial statements instead of directing towards the cash flow forecast. For example, ensuring revenue is recognized as per IFRS-15, provision of warranty is required, etc. These procedures have no implication on cash flows of an entity.
- Examinees mentioned many general procedures which were not required instead of mentioning the procedures specific to the information given in the question.
- Examination procedure related to timing of revenue receipt was generally not mentioned.
- Examination procedure related to warranty costs as no previous history was available was not mentioned.

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

- Examinees could not comprehend that when there is a risk of non-payment, revenue is recognized on receipt basis. Consequently, examinees also missed out relevant course of action to be taken.
- Examinees were also weak in evaluation of highlighted issues. Examinees who identified the issues could only mention one or two courses of action for each issue.
- Examinees' performance in the issue related to the inability of the group audit team to visit component audit team was poor. It seemed that the examinees did not understand the scenario as most of the examinees mentioned that group auditor should appoint a component auditor, which was irrelevant. At most, some of the examinees were only able to mention about arranging video call or consider amending the reporting timescales.

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

- Examinees mentioned about expressing a qualified or adverse opinion which was incorrect.
- Examinees who correctly mentioned about disclaiming the opinion did not mention the following reporting implications when a disclaimer of opinion is given:
  - the auditor should not report on key audit matters.
  - the section on 'Other Information' should also be deleted.
  - change the statement from 'the financial statements have been audited' to 'the auditor was engaged to audit the financial statements'.
  - the auditor responsibility paragraph also needs to be amended.

***(THE END)***