

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN
EXAMINERS' COMMENTS

SUBJECT Audit, Assurance and Related Services	SESSION Certified Finance and Accounting Professional (CFAP) Examination Winter 2023
---	--

Passing %

Question-wise						Overall
1	2	3	4	5	6	
41%	11%	47%	32%	4%	43%	25%

General comments

The passing percentage for this session was 25%, slightly lower than the 28% observed in the previous session. The examinees' performance in Q.5 was particularly poor, which will be discussed in detail in the section on question-wise mistakes. Similarly, their performance in Q.2 was subpar, where many examinees merely reproduced provisions from the code of ethics in their answers without adequately addressing the given scenario.

The decline in results can also be attributed to the examinees' selective study habits, as evidenced by their performance in Q.6. This question, based on ISRS 4410 – Engagement to Compile Financial Statements, saw a total of 427 examinees failing to score any marks, despite it having the second-highest pass rate. This indicates that those who had studied this topic were able to score easily, while those who had not prepared for it at all struggled to respond. Similar trends were also observed in Q.4.

Question-wise common mistakes observed

Question 1

- Examinees primarily focused on verifying the amount to be expensed by the audit client, yet they neglected to address audit procedures for assessing the feasibility of the Adverttech project. Most examinees failed to mention several critical audit procedures, such as:
 - Discussing the development project with management, other relevant senior personnel, and key stakeholders to assess the project's revised feasibility.
 - Reviewing projections and forecasts for resource utilization and generating future economic benefits, especially considering that one of the features was not developed.
 - Assessing the revised marketing plans for the project.
 - Reviewing the disclosures made by management related to the re-statement of the financial statements.

- Furthermore, even though the amount to be expensed for Adverttech was immaterial, many examinees suggested qualifying the audit opinion. They also demonstrated a lack of clarity regarding the reporting implications of this misstatement, with inconclusive suggestions such as qualifying the report if it is material and expressing an adverse opinion if it is pervasive.

Question 2

- Examinees failed to understand that the client's primary interest in management consultancy services could create threats to an assurance engagement. This critical aspect was largely overlooked in their response.
- While many examinees discussed the provision of consultancy services to an audit client, they did not adequately evaluate the significance of the threat and how the firm could manage it.
- A significant number of examinees neglected to mention that the audit fee should be distinctly quoted by the firm, with a separate fee for consultancy services and the audit engagement. Furthermore, they did not discuss the implications of a management consultancy fee significantly exceeding the audit fee, which could also pose threats to the firm.
- Examinees also overlooked the fact that clients in unsound financial positions present significantly higher risks for various reasons.

Question 3

- Examinees identified certain risks but failed to discuss the underlying reasons behind those risks.
- Most of the examinees did not identify and discuss the following audit risks:
 - Recognition of brand as an intangible asset
 - Allocation of the correct amount within the categories of property plant and equipment
 - Penalties fines and contingencies
 - Accounting issues related to cryptocurrency.

Question 4

- The majority of examinees incorrectly focused on the reporting implications for the statutory audit, despite the explicit requirement to discuss the implications on the audit report of summary financial statements.
- Most of the examinees failed to discuss the reasons why the client's request could not be fulfilled.

Question 5

- The majority of the examinees did not understand that the arrangement was a finance lease, which has significant implications for the audit. Consequently, they failed to recognize that revenue for both the sale of testing equipment and testing kits should be recorded at fair value. Furthermore, they overlooked the necessity of presenting finance income and lease installment receivables in the profit and loss statement and on the balance sheet.
- Most of the examinees limited their responses to generic audit procedures related to revenue, failing to address procedures specific to the given scenario. Several important audit procedures were commonly omitted by the majority of examinees, including:
 - Requesting a copy of the client's working papers for the calculation of the present value of the lease payments and independently recalculating to confirm the lease's detailed accounting treatment.

- Verifying that the discount rate used by the audit client is consistent with the market interest rate.
- Using historical sales data and sales at regular prices to determine the fair value of the testing equipment being sold.
- Asking management to prepare a calculation for the potential provision against the lease receivable and reviewing it for accuracy and reasonableness.
- Comparing the client's working to the financial statement disclosures, ensuring compliance with all disclosures required by IFRS-16.
- Most examinees incorrectly assessed the misstatement as material but not pervasive, leading to incorrect conclusions about the reporting implications.
- The examinees showed a lack of clarity regarding the reporting implications of this misstatement. Their responses were inconclusive, suggesting a qualified report if the misstatement was material, and an adverse opinion if it was pervasive, without a clear justification for these distinctions.

Question 6

- Majority of the examinees did not realize that compilation engagement is not an assurance engagement and does not require to express an opinion. Examinees mentioned about expressing a qualified opinion which was not correct.
- Examinees also did not understand the importance of restricting the distribution of the report, leading them to provide irrelevant and incorrect answers.

(THE END)