

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

SUBJECT	SESSION
Audit and Assurance	Certificate in Accounting and Finance (CAF) Autumn 2024

Passing %

Question-wise								
1	2	3	4	5	6	7	8	Overall
36%	15%	12%	47%	21%	38%	51%	37%	37%

General

The overall performance of the examinees in this paper showed slight improvements compared to the previous session. However, there were common areas of concern, particularly with accurately identifying and explaining risks and understanding scenario-based questions related to audit procedures and internal controls. Many examinees provided generic or irrelevant responses, indicating inadequate preparation and a lack of focus on the specific requirements of the questions. For instance, in Question 2, many examinees failed to identify the correct risks, and in Questions 3 and 5, examinees did not mention relevant audit procedures and controls.

Examinees are therefore strongly advised to fully understand the core issues being tested in each question and tailor their responses to address these requirements instead of providing generic answers.

Question-wise common mistakes observed

Question 1(a)

- Examinees wasted time calculating materiality levels for 2023 and 2022, which was irrelevant since the audit was for the year ending September 2024.
- Many examinees calculated materiality using all available benchmarks instead of selecting one and justifying their choice.
- Several examinees failed to explain the rationale for choosing a specific benchmark for materiality calculation.

Question 1(b)

- Examinees did not discuss the impact of reduced profit on materiality and why profit before tax may not be an appropriate benchmark.
- Examinees overlooked the effect of revising materiality on performance materiality and audit procedures.

Question 2

- Examinees identified inherent and control risks but failed to explain their reasoning.
- Examinees confused inherent risks with control risks and vice versa.
- Examinees generally did not identify the following inherent and control risks:
 - Expansion to a new region with low operational costs presents inherent challenges.
 - The family-owned nature of the business increases the risk of management overriding controls.

Question 3

- Examinees generally did not evaluate the matter related to the recording of liability for the raw material received but not yet billed and provision for sales return.
- Examinees did not mention the following audit procedures:
 - Obtain and review the management's report to determine the presence of the banned substance.
 - Obtain and review the invoices issued after year-end to verify the accruals recorded by the management.
 - Obtain management reports to identify the products that are in OML's inventory at year-end and sold during the year.
 - Verify physical inventory counts to ensure that recalled stock is accurately segregated and recorded as damaged or defective.
 - Obtain third-party confirmations from distributors involved in the recall to verify the validity of the returns, claims, and adjustments.

Question 4

- A lot of examinees only identified the irrelevant audit procedure but did not explain why it was irrelevant.
- Additional audit procedures mentioned by the examinee were not relevant to the given assertions.
- Examinees generally did not mention the following audit procedures:
 - Perform a reconciliation of the subsidiary ledger for intangible assets with the general ledger.
 - Compare the list of intangible assets with prior periods.
 - Review the assumptions and methodologies used by management for valuing internally developed software.
 - Check for any liens or restrictions on the intangible assets.
 - Inspect the physical or electronic documentation related to the internally developed software projects.

Question 5

The examinees did not mention the following controls:

- Implementing a strict delegation of authority policy.
- A comprehensive procurement manual should be developed, outlining the policies and procedures.
- Regular training programs should be arranged for procurement staff.
- A confidential whistleblower mechanism should be established.

- Historical data should be analyzed to monitor procurement transactions.
- Regular performance reviews should be conducted.

Question 6(a)

- Examinees generally failed to identify and explain the advocacy threat and the fundamental principles of integrity and professional behavior.
- Examinees also did not explain how these threats impact the relevant principles.

Question 6(b)

- Examinees generally failed to identify and explain the intimidation threat and the fundamental principle of integrity.
- Examinees also did not explain how these threats impact the relevant principles.

Question 7(a)

- Examinees mentioned both qualified and adverse opinions, which was incorrect.
- Many examinees concluded that the misstatement was material and pervasive, requiring an adverse opinion, which was incorrect.

Question 7(b)

Examinees performed well in this part of the question.

Question 7(c)

Examinees did not discuss why the issue would be included as a key audit matter, even though it met all relevant criteria.

Many examinees incorrectly concluded that the misstatement was material and required a qualified opinion.

Question 8(a)

Examinees did not state the following problems when control systems rely excessively on the involvement of senior management:

- Management may lack the expertise necessary to control the entity effectively.
- There may be a lack of evidence of controls. The auditor may not know that the controls exist and are being applied.
- Senior management may not have the time or detailed knowledge to effectively monitor all aspects of the control system.

Question 8(b)

Examinees listed the balance sheet and profit and loss line items for comparison during analytical procedures, instead of discussing specific types of comparisons, such as:

- Expected results.

- Comparable parts of the same entity.
- Comparisons with non-financial information.

Question 8(c)

Examinees did not mention the following audit procedures:

- Obtain schedules showing the make-up of the cost figures for each item of work in progress.
- Check the stage of completion of the work in progress, in respect of both materials and conversion costs (labor and overheads).
- Conduct a physical inspection of the work in progress to verify its existence and condition. This also includes reconciling physical counts with the recorded WIP amounts.
- Examine production reports, job sheets, or work orders to ensure that the WIP is properly recorded and corresponds to the stage of completion.

Question 8(d)

Examinees did not mention the following inquiries:

- Management's communication, if any, to employees regarding its views on business practices and ethical behavior.
- Enquire whether they know of any actual, suspected, or alleged fraud affecting the entity.

(THE END)