

| | |
|---|--|
| INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN | |
| EXAMINERS' COMMENTS | |
| SUBJECT Audit and Assurance | SESSION Certificate in Accounting and Finance (CAF) Spring 2024 |

Passing %

| Question-wise | | | | | | | | |
|---------------|-----|-----|-----|-----|-----|-----|-----|---------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | Overall |
| 44% | 10% | 29% | 39% | 27% | 54% | 38% | 54% | 36% |

General comments

The overall passing percentage for this session was slightly lower than the previous session, with a passing percentage of 37%. It was commonly observed that examinees began writing their answers without fully comprehending the requirements of the questions, leading to missed key aspects. For example:

- In Question 2, many examinees failed to discuss the evaluation of the threat.
- In Question 8(a), many examinees mentioned general procedures related to the verification of debtor balances.
- In Question 8(d), examinees included matters that were not mandatorily required to be part of the engagement letter.

All examinees are again advised to carefully read and understand the requirements of each question before writing their answers.

Question-wise common mistakes observed

Question 1

- Examinees only identified the fraud risk factors and did not provide further discussion.
- Examinees did not identify the following fraud risk factors:
 - Significant pending transactions related to the sale of shares.
 - Reduction of employee wages despite high inflation.
 - CEO's involvement in recommending accounting policy and active engagement with valuers.

Question 2(a)

- Examinees did not discuss the reasons for the identified threat.
- Examinees did not evaluate the significance of the threat.
- Examinees mentioned safeguards that were not required.

Question 2(b)

Examinees answered the question from the perspective that the HR manager was an audit team member. Additionally, examinees mentioned safeguards that were not required.

Question 2(c)

Examinees did not discuss that the approach taken by the board to remove the auditors was incorrect and that the ultimate power to remove an auditor rests with the shareholders. Consequently, examinees also failed to mention the following relevant steps:

- Convene a general meeting to pass a special resolution for the appointment of a different auditor.
- Appoint the new auditors with prior approval of the Commission.

Question 3

- There were two aspects to this question: one related to going concern and the other to the impairment of assets. Most examinees did not realize that if the audit client could continue as a going concern, the notification issued by the aviation authority indicated impairment of the aircraft. Consequently, examinees also did not mention the relevant audit procedures.
- For the going concern matter, examinees did not mention the following audit procedures:
 - Assess whether the audit client has sufficient funds or borrowing facilities to purchase new aircraft.
 - Review that the disclosures made in the financial statements regarding material uncertainties as to going concern assumptions and management plans to mitigate those material uncertainties are adequate.

Question 4

Examinees did not discuss matters related to ownership structure and governance structure. However, examinees performed well on matters related to regulatory requirements and relevant industry factors.

Question 5(a)

- Examinees only discussed the appointment of an expert for the inventory count.
- Examinees did not consider that an expert might not be needed for the valuation of the inventory and that the auditor can perform audit procedures for its verification.

Question 5(b)

Examinees only focused on mentioning the alternate audit procedures in detail and did not discuss that how solely relying on the written representation would affect the quality of the audit evidence obtained by the audit team.

Question 6(a)

Instead of using the value of the inventory at the warehouse where the inventory count was not conducted, examinees considered the value of the entire inventory when arriving at the conclusion related to materiality. Consequently, most examinees deemed it material and pervasive, leading to an incorrect adverse opinion.

Examinees mentioned both opinions i.e., expressing a qualified opinion or an adverse opinion, which was not correct.

Question 6(b)

Examinees did not realize that related parties and their transactions need to be disclosed in the financial statements regardless of the transaction value. Therefore, examinees incorrectly stated that since the amount not disclosed was immaterial, there would be no impact on the audit report. Additionally, some examinees did not recognize that it was a related party transaction and consequently provided irrelevant answers.

Examinees mentioned both opinions i.e., expressing a qualified opinion or an adverse opinion, which was not correct.

Question 7(a)

Examinees only discussed the segregation of duties. They failed to discuss the following controls:

- Introduce a policy where discounts above a certain threshold require a manual review or approval from a supervisor.
- Implement a system where discount rules are automatically applied based on predefined criteria.
- Once a dispatch note is prepared the order should be marked as closed.
- Use an integrated order management system that automatically tracks and manages orders across all stages of processing.
- Use an order management system that flags duplicate orders based on customer information, order details, and timestamps.

Question 7(b)

Examinees did not mention the following audit procedures:

- Considering the appropriateness of management's process for supporting the assertion.
- Verifying the source of the internal or external data supporting the assertion, and testing the data to determine their accuracy, completeness and relevance.
- Evaluating the reasonableness of any significant assumptions on which the assertion is based.

Question 8(a)

Examinees performed well in this part of the question. However, some of the examinees mentioned audit procedures for verification of debtors, which were not related to the confirmation of balances.

Question 8(b)

Examinees did not mention the following reasons for preparing sufficient and appropriate audit documentation:

- Enhances the quality of the audit.
- Ensures that members of the audit team are accountable for their work.
- Enables an experienced auditor, with no previous connection with that audit, to conduct quality control reviews or other inspections.

Question 8(c)

Examinees did not mention the following factors to consider while designing the sample:

- Consider the purpose of the audit procedure and the population from which the sample will be drawn.
- Consider the characteristic of the population from which the sample will be drawn.
- Consider the nature of the audit evidence sought from the sample.

Question 8(d)

Examinees performed well in this part of the question. However, some of the examinees mentioned matters which were not mandatory to be included in the engagement letter.

(THE END)