

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN**  
**EXAMINERS' COMMENTS**

<b>SUBJECT</b> Audit, Assurance and Related Services	<b>SESSION</b> Certified Finance and Accounting Professional (CFAP) Examination Winter 2024
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**Passing %**

Question-wise						Overall
1	2	3	4	5	6	
66%	3%	51%	35%	14%	18%	26%

**General comments**

The overall performance of examinees in this session remained consistent with the previous result, as recurring issues continue to affect outcomes. Many examinees struggled to address the specific requirements of the questions, often providing generic or irrelevant responses instead of tailoring their answers to the given scenarios.

While examinees generally performed well on questions related to audit procedures, a significant number faced challenges with deeper analysis, application, and scenario-based reasoning. Many responses lacked depth and failed to address all relevant points, highlighting the need for stronger critical thinking and problem-solving skills.

A notable challenge was the difficulty in applying the principles of the Code of Ethics. Many examinees reproduced provisions of the Code without addressing their relevance to the scenario or demonstrating how these principles should be applied in practice.

To improve performance, examinees are encouraged to develop a stronger understanding of key audit principles and focus on applying these within specific scenarios, rather than relying on rote memorization. It is essential to analyze and reason through risks, threats, and safeguards within the context of the given situation. Furthermore, examinees should carefully read and interpret the requirements of each question to ensure their responses are structured, and relevant, and directly address the issues raised.

**Question-wise common mistakes observed**

**Question 1**

Examinees who were able to identify the risks failed to discuss the underlying reasons.

Examinees did not identify and discuss the following audit risks:

- Increase in gross profit
- Change in the letter of credit terms
- Increased inventory days

## **Question 2**

Examinees struggled to link the concept of management responsibility and other key principles to the given scenario, hindering their ability to apply their knowledge effectively. Many resorted to merely reproducing the provisions of the Code of Ethics without adequately contextualizing them.

Additionally, examinees were expected to reason their identification of threats in light of the given scenario rather than simply listing the threats. Examinees also failed to discuss how to modify the scope of work to uphold the independence of the auditor's role, which was a critical aspect of the question.

## **Question 3(a)**

Examinees generally discussed the conflict-of-interest issue but did not mention the matters to consider for the expert's appointment.

The following matters related to the expert's appointment were not mentioned:

- Disclose the nature of the expert's firm's prior involvement with ZTL to the audit team
- Discuss the planned safeguards adopted by the expert's firm
- Implement ongoing monitoring of expert's work

## **Question 3(b)**

Examinees did not mention the following audit procedures:

- Review supporting documentation for key assumptions, such as the rate of defects, expected costs of repairs/replacements, and the probability of claims.
- Analyze the costs associated with the partial recall and the replacement of defective products.
- Request management to perform a sensitivity analysis to demonstrate the impact on the warranty provision under various assumptions (e.g., increased claims volume, higher recall costs, additional regulatory fines).
- Review subsequent events post-year-end to see if there has been a further increase in warranty claims or additional lawsuits.

## **Question 4(a)**

Examinees did not mention the following audit procedures:

- Validate the fair value re-measurement of the initial 25% stake by comparing it to observable market data, valuation reports, or any other relevant information.
- Obtain a schedule of net assets of the subsidiary and the mechanism adopted to arrive at the fair values.
- Obtain impairment testing performed by the management to assess the carrying value of goodwill as of the reporting date and the method, assumptions, data, and calculations performed.

## **Question 4(b)**

- Many examinees focused on audit procedures related to the going concern issue, rather than addressing the audit strategy for this issue, as required by the question.

- Additionally, instead of discussing how to engage the component auditor, the majority of examinees approached the question from the perspective of the group auditor conducting the component audit, resulting in an incorrect answer.

#### **Question 4(c)**

- Examinees failed to evaluate the impact of the component's going concern issue on the consolidated financial statements.
- Examinees also did not discuss the possibility of including it as a key audit matter.

#### **Question 5**

Examinees did not identify and discuss the following deficiencies in the audit report:

- Reference of audit procedures related to material uncertainty related to going concern mentioned in the audit report.
- No reference to Material Uncertainty related to going concern has been provided in the Key Audit Matter Section of the audit report.
- The "Other Information" section does not explicitly identify the specific documents that the auditor expects to receive after the date of the auditor's report.
- The auditor has not received the complete annual report and is therefore unable to conclude.

#### **Question 6**

- It was noted that examinees only resorted to mentioning about verification of assumptions for each line item of the cash flow forecast instead of discussing how to verify those assumptions.
- Examinees also mentioned procedures for verifying non-cash transactions like depreciation and provisions, which are not relevant for a cash flow forecast.

Apart from the above, examinees also did not mention the following key examination procedures:

- Assess historical collection periods for distributors and compare them with the forecasted credit sales collection pattern.
- Review accounts receivable aging reports to validate collection assumptions.
- Obtain from management detailed product feasibility to verify the operational expenses of the new product line.
- Review contracts and quotations to confirm the R&D expenditure for the new product line.
- Obtain and review marketing budgets and plans, particularly for the new product line and international expansion, to verify the forecasted expenses.

***(THE END)***