THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN EXAMINERS' COMMENTS	
SUBJECT Audit, Assurance and Related Services	**SESSION** Certified Finance and Accounting Professional (CFAP) Examination Summer 2024

Passing %

Question-wise						Overall
1	2	3	4	5	6	26%
20%	30%	29%	35%	33%	9%	

General comments

The overall pass rate for this session slightly improved, increasing from 25% to 26%. Despite this marginal increase in the result, several persistent issues were observed, similar to previous sessions, indicating areas where examinees need to focus to improve their performance further.

A recurring issue is the lack of attention to the specific requirements of the questions. Many examinees continue to provide general or irrelevant responses instead of addressing the question directly. This pattern was noted across various questions, where examinees either reproduced provisions from standards without relating them to the given scenarios or mentioned audit procedures when they were not required, such as in Question 2.

Another common observation across this and previous sessions is the lack of proper planning and time management during the examination. Examinees frequently begin answering questions without thoroughly reading the requirements, leading to incomplete or irrelevant answers. This approach not only results in a loss of valuable marks but also affects the overall time management, leaving less time for other questions.

Question-wise common mistakes observed

Question 1

- Many examinees focused solely on the complexity and valuation aspects of hedging transactions, neglecting that the audit client, who previously only hedged against price risk, is now also hedging against cash flow risk. Additionally, examinees overlooked the audit client engaging in numerous hedging transactions.
- Examinees generally failed to mention the following audit procedures:
  - Match crude oil future prices for fair valuation with the quotes available at PMEX.
  - Obtain and verify the workings for the fair valuation of forward exchange contracts.
  - Assess the adequacy of the method used by management to calculate hedge effectiveness.
  - Ensure that formal documentation is available to describe the risk management objective and strategy.

  - Reconcile the number of hedging contracts reported in financial statements with external confirmations from counterparties and brokers.

Question 2

- Most examinees focused on how they would verify revenue by mentioning audit procedures and management inquiries, instead of addressing the requirement of the question, which asked them to suggest an audit strategy. It was also specifically mentioned that audit procedures were not required.
- Examinees generally did not discuss that, in the given scenario, it might be impossible to design effective substantive procedures that, by themselves, provide sufficient and appropriate audit evidence.
- While mentioning controls, examinees only referred to general IT controls and did not mention controls specific to revenue in the context of the given scenario. They generally failed to mention the following controls:
  - Data validation controls at various stages of the billing process to ensure the accuracy and completeness of input data, such as customer profiles, pricing structures, and usage.
  - Reconciliation controls among various reports generated by the system, such as usage and receipts from customer data management and financial systems.
  - Processes implemented to periodically test system performance independently from those running the systems on a daily basis.
  - Reconciliation of revenue recorded in the accounting system against independent sources.

Question 3

- Examinees identified the risks but failed to discuss the underlying reasons.
- Examinees wasted time by mentioning audit procedures that were not required.
- Most examinees did not identify and discuss the following audit risks:
  - Impairment testing of contract assets
  - Inadequate disclosure of segment reporting
  - Classification as a joint operation or a joint venture
  - Capitalizing borrowing costs as part of the cost of an asset
  - Recognition of gold bars as investments in financial statements.

Question 4

- Some examinees did not know what off-balance sheet assets and liabilities are, leading them to mention all possible assets and liabilities derived from the scenario. This approach wasted time and diverted focus from the correct off-balance sheet assets and liabilities.
- Examinees generally did not identify the following off-balance sheet items:
  - Unique recipes as intellectual property
  - Purchase commitments in the form of long-term supplier agreements.

Question 5(a)

The following reporting implications were generally not mentioned by examinees:

- Amend the auditor's report to include an additional date restricted to that amendment, indicating that the audit procedures on subsequent events are restricted solely to the amendment of the financial statements as described in the relevant note.

- Provide a new or amended auditor's report that includes a statement in an Emphasis of Matter paragraph or Other Matter paragraph, conveying that the auditor's procedures on subsequent events are restricted solely to the amendment of the financial statements as described in the relevant note.

Question 5(b)

- Some examinees considered the effect of the misstatement to be both material and pervasive.
- Examinees did not discuss the impact of scope limitations on the "Other Information" section of the audit report.
- Examinees did not understand that the possible misstatement in the other information of the annual report could be due to differences in the understanding of the entity's environment between the CEO and the audit team. This may require the audit team to update their understanding of the entity and its environment. Consequently, examinees did not mention the related course of action.

Question 6

- Examinees responded from the perspective of the Code of Ethics instead of focusing on ISQM-1, causing them to miss several important points that needed discussion.
- Examinees generally did not analyze the following:
  - Employees assigned to specific roles must understand the firm's strategic decisions and actions and have experience with the firm's business operations.
  - Individuals assigned operational responsibility for the quality management system should have a direct line of communication with those assigned ultimate responsibility and accountability for the system.
  - Centralized decision-making may hinder the achievement of scalability objectives.

(THE END)