

Examiner's Report

AA3 EXAMINATION - JULY 2019

(AA34) PROCESSES, CONTROLS AND AUDIT

(AA34) Processes, Controls, and Audit, included nine (9) compulsory questions based on the study text (Both theory and its application). There were three (3) sections in this question paper; **Section A** contained four (4) compulsory questions carrying five (5) marks each, **Section B** contained three (3) compulsory questions carrying ten (10) marks each, and **Section C** contained two (2) compulsory questions carrying twenty-five (25) marks each.

The entire question paper was based on self-study text (Both theory and its application), and it tested the theoretical, and its application specially in last two questions. If the candidates had studied the study text and practiced answering past paper questions at least last five years, they could have easily obtained more than 50 marks to get through this paper. Most of the candidates have the subject knowledge, however, they lack practice as to how the answers should be formulated on the question given in the question paper based on the subject matter.

The Overall Performance of the candidates for this paper was satisfactory, and there were candidates who were able to obtain high marks, and they have answered all the questions systematically by managing allocated time for the paper. However, there were significant number of candidates who have obtained lower marks.

Majority of candidates have attempted and answered all questions in the paper, however there were some parts of the questions which were not answered. This happened mainly due to poor time management, lack of knowledge and lack of understanding of the questions in the paper.

Apart from the above, the following general observations were noted during the marking process:

- Lack of analytical skills.
- Illegible hand writing.
- Writing short answers where high marks were available.
- Writing lengthy answers where low marks were available.
- Have identified the issues in the case study but have not answered in line with the questions.
- Have not planned the answers and ended up with providing irrelevant answers.
- Have not understood the "Action Verb" given in the question.
- Have not understood the examiner's expectation from the question.

Section A

Four (04) Compulsory Questions

Question No. 01

The question tested the external environmental factors (economic & legal) affecting the business of imports and retail trade of electrical items.

The question is straightforward and the subject matter has been directly taken from the study text, requested the candidates to answer under the given factors relevant to environmental factors. Most candidates were able to understand the expectation from the question, given their answers accordingly, and obtained full marks. However, there were students not able to secure marks as those candidates had given general answers without relating to the business of electrical items. Further it was noted that some of the candidates tried to relate the current political and social media impacts as external environmental factors affecting the business. This is clear evidence of candidates lacking the application knowledge of the subject matter.

Overall performance of this question is at satisfactory level.

Question No. 02

Part (a) of this question tested the situations where the risk acceptable methods to mitigate different types of risks, for **part (b)**, three situations were given, where the candidates were requested to identify the mitigating of risk of each of the situations. This part of the question tested the application knowledge of the students.

There were few students who were able to obtain full marks for both parts of the question. However, the performance of the candidates was at a very poor level for **part (b)** as the majority of candidates had mixed up risk avoidance with the risk sharing.

Overall performance of this question is not at satisfactory level.

Question No. 03

Part (a) of the question tested the knowledge of candidates relating to the areas of the entity and its environment regarding which an auditor should obtain an understanding. Average number of candidates had answered **part (a)**. Considerable number of candidates had given correct answers. It was noted that most of the candidates had given lengthy answers, instead of identifying the 3 areas. Probably these candidates would not have been able to answer the full paper due to poor time management.

Under **part (b)** of the question, candidates were required to identify two components of the entity's internal control system. Most students were able to obtain satisfactory marks. However, there were irrelevant answers such as political, economic, social environment, etc.

Overall performance of this question is at satisfactory level.

Question No. 04

Part (a) of the question tested knowledge of quality control elements and required identification of three of those which were not practiced in the given scenario. Only few candidates were able to identify the requirement and answered accurately.

Part (b) of this question tested the knowledge on responsibility of the managing partner when discharging his duties along with his team members. Some of the candidates had given general facts such as human resource matters and operational matters.

The candidates' knowledge about the quality control element and the importance of such requirement for a practicing firm is at very low level. Lack of practical experience and not studying the study text may have been causes for obtaining low marks.

Overall performance of this question is at an average level.

Section B

Three (03) Compulsory Questions

Question No. 05

Part (a) of the question tested the practical application of three-party relationship along with the subject matter of the referred engagement discussed under the given scenario.

Majority of the candidates were able to identify the subject matter of the engagement but many of them mentioned that the intended user of the engagement is to Shareholders or Directors of the company. Majority of the candidates were able to identify the roles of responsible party and practioner. Further most of the candidates were not able to provide a comprehensive answer, for example some candidates had given only those parties, and some provided only names of the parties without linking those to provide complete answer.

Part (b) of this question was to test the ability of the candidates to identify the requirements that should have been performed by **Kamal Associates** before accepting the engagement. There were students who were able to get full marks. Some candidates had given irrelevant answers such as analyze the financial statements, allow auditor to verify the financial statements, agree to get support of the auditor to detect frauds, misstatements, and errors in the financial statements, etc.

Overall performance of this question is at satisfactory level.

Question No. 06

Part (A) (a) of the question was to test the meaning of combined approach, and it was a straightforward question.

Majority of candidates had attempted this question, and only few candidates were able to provide with a satisfactory answer to get full marks. However, as per the study text, there should be three parts to be included in the answers such as sound internal control, controls are effective, performing of test of controls and substantive procedure. However, most of students had provided only one or two points of the above. Some candidates had given totally irrelevant one word answers such as substantive procedure, consider two years as combined audit approach, and some have tried to explain the dictionary meaning for the combined approach.

Sub **part (b)** of the **part (A)** was on substantive procedures to be performed to test the occurrence of revenue. Considerable number of candidates had given correct answer.

Under **Part (B)** of this question, the definition for “Audit Documentation”, and content in the working paper were tested. Both questions were theory-based questions, and directly from the study text.

In **part (B) (a)**, candidates were required to define audit documentation. All the candidates had attempted this part; however, only a few candidates were able to provide a complete answer. According to the study text, there should be three parts to be included in the answer, such as recording of the audit procedure performed, relevant audit evidence obtained, and the conclusions that the auditor would reach. However, most of the students provided only one or two of the above matters. Further, some candidates have repeated the text given in the question. Such as recording sufficient and appropriate evidence as audit documentation.

By **part (B) (b)**, candidates were required to mention three basic information included in a working paper. However, only a few candidates were able to provide the complete answer. Some candidates had misunderstood the question and given items in the audit plan. Further, lot of candidates had given details of contents of individual work sheets, such as employee name, date of joining, salary, OT, number of hours worked, etc. Some candidates have given items in the permanent, current audit files.

Overall performance of this question is at satisfactory level.

Question No. 07

Part (a) of the question required candidates to explain when an auditor should express an unmodified opinion.

This part of the question was very straightforward, and directly from the study text. Majority of the students were able to score full marks for this part.

Part (b) of the question tested the knowledge on types of modified opinion. Most of the candidates were able to secure full marks as they have given answers expected by the examiner.

Part (c) of the question was to test the application of the theoretical knowledge in the practical business environment based on facts given in a scenario and tested the knowledge on how to assess the impact of given audit issues on the audit opinion. Many of the students were unable to apply their theoretical knowledge to the practical situation.

Due to lack of knowledge about selecting the suitable type of modification, many of the candidates had written highly irrelevant answers, and repeating the facts and figures given in the scenario without linking those facts to the audit opinion. Further, it was noted that most of the candidates had not discussed / explained the requirement under LKAS 02 -Inventory valuation, and that impact to the Cost of Sale and Profit.

Overall performance of this question is at an average level.

Section C

Two (02) compulsory questions only

Question No. 08

The question was to test the ability to understand the internal audit function of the given scenario and the way they can re-call their theoretical knowledge and how they can apply them in the practical/real business environment.

Majority of the candidates attempted this question and the performance was at high level when compared with other questions.

Part (a), (b) & (c)

Majority of the candidates were able to score full marks as the questions are straight forward.

For **part (a)** candidates had to think about the processes rather than the procedures mentioned in the given scenario. Almost all the candidates had attempted this part of the question, and able to obtain satisfactory marks. However, there was a significant number of candidates who had given irrelevant answers such as management skills and training processes which are not related to the answer expected by the examiner.

Majority of candidates were able to select weaknesses in the cash management process of the given scenario under **part (b)** of the question. Further, most of the candidates were able to pick the answer from the questions since almost all the weaknesses were given in the question.

The performances were at very high level for this part of the question, as expected answer can be picked from the question itself.

The performance for **part (c)** was satisfactory. Majority of candidates were able to obtain high marks for this part.

Part (d) - Analytical Procedures

Majority of the candidates had not attempted this part of the question. Most of the candidates had provided totally irrelevant answers, such as re-calculation, verification, detail checking of vouchers and so on as analytical procedures. It seems that candidates were not able to comprehend as to what is meant by analytical procedure.

Part (e)

The majority of candidates had agreed with the decision given in the question considering the sound internal control that prevailed. However, the candidates failed to understand the fact that sound internal control only provides a reasonable assurance, and they have ignored the fact that inherent limitation can have an impact even on sound internal controls such as continuous changing of operational risks, non-routine transactions and human errors, etc.

As such, the performance for this part of the question was very poor, however, a couple of candidates were able to provide with logical answers and obtain full marks.

Part (f)

Majority of the candidates attempted this part and the students were able to identify controls that should be in place to prevent or detect unauthorized changes to programs of the system. Overall performance for this part of the question was satisfactory this being a practical question.

Overall performance for this question is at an average level.

Question No. 09

Part (A)

Part (a)

Part (a) of this question, the examiner has tested the knowledge on audit evidence that could have been collected when performing the audit procedure for Property Plant, and Equipment. Most of the successful candidates had referred the fixed assets register and title deeds to ownership of land, etc. in their answers, and obtained full marks applicable for the question. However, there were candidates who had written irrelevant answers as types of audit procedure such as inquiry, observation inspection and recalculation without relating to the question.

Part (b)

The requirement of this part was for candidates to state three audit procedures to be performed in auditing the revalued assets. Some candidates answered with general type of audit procedures rather than referring to the audit procedures for independent valuer's report and the other judgmental basis audit procedures.

Part (c)

By this part of the question, it was required to explain two important matters where written management representation is required. The question is purely from the theoretical knowledge and those candidates who had the knowledge were able to score marks at a satisfactory level.

Part (d)

It was required to identify four important matters when dealing with the professional valuer relating to revalued assets. But majority had not given correct answers.

The performance for this part was at an average level and some common irrelevant/poor answers were given such as Cost or residual value of assets, Depreciation after revaluation, etc.

Part (B)

Candidates' knowledge on procedures to be followed up before accepting a new audit engagement was tested.

Most of the candidates had mentioned that **Sudath** could undertake the assignment easily without discussing the procedures to be followed up.

Part (C)

It was required to explain 03 threats to compliance with fundamental principles of ethics with reference to the given situation. Most of the candidates recognized one point out of 3 which is negotiating the terms of employment while being involved in the audit creating a self-interest threat.

Other 2 threats as follows were not recognized by the majority of candidates:

- The audit partner is granted with 5 days stay at Maldives as New Year gift, the value of gift is significant.
- The chairman is inducing to accept incorrect accounting practice threatening a fee cut.

Overall performance for this question was at an average level.

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Suggestions to enhance the Competency Level of Candidates in order to Improve the Performance at the Examination:

- (1) Candidates must study the study text and understand its contents.
- (2) Refer articles, magazines in relation to this subject and other reading materials related to auditing.
- (3) Understand the definition of action verbs and practice as the candidates have to answer the question based on the action verbs list given at the end of the question paper.
- (4) Study the contents of the past papers and practice at least last five years' examination papers and try to understand the way in which the questions are being set.
- (5) The candidates should understand the relationship between the theory given in the question papers and examiner's expectation of its application at the examination.
- (6) The candidates should study and understand as to what areas in the study text have been tested in the past question paper and make short notes of those areas in the study text.
- (7) The candidates should work out the past paper questions on timely basis before the examination, it will improve the time management at the examination.
- (8) Write short notes of each study chapter given in the study text and study as and when you get free time to remember the contents of syllabus
- (9) Candidates should write legibly at the examination.
- (10) The candidates should carefully read the instructions given in the examination paper prior to start answering the questions in the paper.
- (11) The candidates should have a clear and balance mind set at the examination in order to understand the question and provide with appropriate and accurate answers required in the question.
- (12) The candidates should allocate time for the questions based on the marks given and accordingly, the candidate should effectively be able to answer all the questions given in the paper.
- (13) Check twice whether all required questions were answered and appropriately numbered prior to hand over the answer scripts.