

EXAMINER'S REPORT**LEVEL III EXAMINATION - JULY 2021****(303) FINANCIAL CONTROLS & AUDIT**

(303) Financial Controls, and Audit, comprises 9 compulsory questions. There were 3 sections in this question paper; Section A includes 4 compulsory questions carrying 5 marks each, Section B contained 3 compulsory questions carrying 10 marks each, and Section C contained 2 compulsory questions carrying 25 marks each.

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 was mainly due to poor time management, lack of knowledge and lack of understanding the requirement of the questions.

The overall performance was at satisfactory level.

Section A**Question No. 01**

The question was purely based on assurance engagements.

Part (a) of the question was to test the knowledge of candidates regarding the differences between a reasonable assurance engagement and a limited assurance engagement.

This question was very straightforward and direct answers could have been given. Except few, all other candidates gained average marks. Some candidates provided irrelevant answers for **part (a)**.

Under **part (b)** of the question, candidates were required to state examples for assurance engagements other than the statutory audit.

Some candidates repeated Statutory Audit and earned no marks. The study text clearly states more than seven examples. This indicate that most of the candidates had not given due concern to study the relevant study text.

Candidates should improve their knowledge on following areas to score satisfactory marks for these type of questions.

1. What is an assurance engagement?
2. Types of assurance engagements.
3. Difference between Reasonable and Limited assurance engagements.

Overall performance of this question was at satisfactory level.

Question No. 02

The question was to test the knowledge about the agency theory and stewardship theory.

Majority of the candidates have not understood the requirement and not answered correctly and earned lower marks.

These theories also clearly explained in the study text. Candidates should have clear understanding on these theoretical matters and relationship because the role of auditing provides a mechanism for shareholders to ensure that directors are acting best interest of the company and play the stewardship role.

Some candidates provided irrelevant answers such as; agent is looking after auditor's duty when he is unable to attend, etc.

Overall performance of this question was not at a satisfactory level.

Question No. 03

Business organizations face many challenges and risks, while they are carrying on businesses. Due to Covid-19 pandemic the risk was increased and specially affected the leisure sector.

The question was required to assess Operation and Compliance risks of AB PLC which is operating in the leisure sector

Performance was at average level and reason for poor performance was:

- Unable to explain operational and Compliance risks
- Inability to assess the level of risks
- Presents inappropriate examples.

There are number of examples from the Covid-19 pandemic for the leisure sector, such as "lock down, exchange controls, wearing face masks, maintaining minimum required distance, etc." could have been used when answering this question.

Candidates should improve their knowledge on internal and external risks, risk management framework and techniques used in mitigating those risks.

Overall performance of this question was not at average level.

Question No. 04

The question tested the knowledge on quality control procedures to be performed at the individual audit engagement level. There are three policies and procedures need to be considered for quality control on individual engagement namely; Consistency in the quality of engagement performance, Supervision and Review.

Part (a) of this question was required to state matters to be addressed and considered in the consistency in the quality of engagement performance and review.

Most of the Candidates had mentioned whatever procedure they know about the quality control and earned no marks.

To score marks for this type of question candidates should have clear understanding on:

- Elements of the system of quality controls for the firm
- Quality control requirements applicable for an Individual Audit.
- Policies and procedures and matters to be considered for each element of quality control.

Part (b) of the question checked the matters to be considered when reviewing the working papers.

Most of the candidates have attempted both parts and scored average marks.

Overall performance of this question was at an average level.

Section B

Question No. 05

Auditor should comply with the code of ethical behavior because ethical conduct is a feature of a profession.

Part (a) of the question required to explain three threats to compliance with the fundamental principles of ethics with reference to the given scenario.

Most of the candidates had explained the threats given in the case without linking to the relevant principle. Some candidates had identified Self review as threat but not applicable to the scenario and earned no marks.

Part (b) of the question required to state firm wide safeguards to be implemented by **Suraj and Company** to minimize the threats identified. The study text depicted many safeguards to be adopted by a firm. However few candidates correctly stated safeguards and some have mixed up with the engagement specific safeguards.

Overall the candidates are advised to have a clear understanding on following areas:

- Fundamentals of professional ethics.
- Matters to be considered in accepting new client.
- Threats to comply with fundamental principles.
- Safeguards to reduce/eliminates threats.
- Auditor's Independence concept.

Overall performance of this question was at an average level.

Question No. 06

Part (a) of the question required to explain specific procedures that should be performed by audit manager in relation to initial audit before commencing the audit.

Most of the candidates have attended this question. However, they have answered procedures for initial audit acceptance as well as planning or steps of a new manager's initial audit planning. Also some candidates had mentioned general audit procedures such as: Inquiry, Observation, Analytical procedure, External confirmation and not earned marks.

Performance was not at satisfactory level.

Part (b) and **(c)** of the question were about audit documentation and performance was at average level.

For **part (c)** many candidates had mentioned information in auditors report instead of information in working papers. (Example: Auditors name, Address, Opinion, Signature)

Candidates did not have a clear idea on the audit paper documentation and listed too general answers.

Overall performance of this question was at satisfactory level.

Question No. 07

Part (a) of the question required to explain matters that the auditor should communicate with management with respect to the finding from audit of **Rama PLC**. Candidates had to repeat the matters given in the scenario with explanation and easily earn the full marks. Performance for this part was at satisfactory level and few candidates were unsuccessful due to poor ability to understand the requirement of the question mainly due to not studying and attempting for past papers.

Part (b)

This part tests candidates knowledge on forming an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence. It was required to assess the impact of the matter included under findings on the audit opinion.

As per the LKAS 23 borrowing cost directly attributable to qualifying assets should be capitalized. However it had been charged to income statement and impact is material to the financial statements. Therefore, the auditor should discuss the matter with the management. If they do not agree to adjust, the audit opinion should be modified accordingly. Performance for this part was very poor.

The reason for poor performance was due to:

- Lack of knowledge on related Accounting and Auditing standards.
- Assess the impact of auditor's findings on audit opinion.
- Inability to form appropriate opinion.
- Identifying the importance of materiality and it's impact to the auditor's opinion.

Overall performance of this question was at an average level.

Section C

Question No. 08

The question was case study based question and tested the knowledge on Business processes, internal controls, and IT controls. It is expected that candidates to identify the weakness, identifying the benefits of internal controls in the given scenario.

Part (a)

It was required recognizing 03 elements of control activities that were not properly designed by **Malaka (pvt) Ltd.** with an example for each weakness. Most of the candidates had given examples without recognizing relevant element of control activity. That is due to candidates poor knowledge on theoretical aspects of internal controls.

Part (b)

This part requested to state recommendations to overcome weaknesses recognized in **part (a)**.

Candidates those who recognized elements of control activities successfully attempted this part and scored higher marks.

Performance was at average level.

Part (c)

The candidates were requested to explain three benefits of implementing an Internal Control system within an organization. The study text mentioned number of benefits with detailed explanations.

Most of candidates provided general advantages and unable to obtain full marks. Some candidates mentioned the points correctly, but elaborated different idea. Also, some candidates have explained irrelevant answers like increasing goodwill, transparency, solving employee disputes, workers discipline, etc. Therefore, candidates are advised to pay sufficient attention for this part in the study text, because every year a considerable percentage of marks are allocated from this chapter due to it's high weightage.

However, performance was at average level.

Part (d)

It was required to state steps of payroll process in the payroll system. Performance was at average level. This is an easy question to earn marks.

However, many candidates have merely mentioned the steps in a payroll system such as: Record attendance, Make payments without any flow in the process.

Very few candidates had mentioned the steps of payroll process in order and earned full marks.

Part (e)

This part required to list controls that can be implemented over prevention or detection of unauthorized changes to programs and controls that can be implemented to prevent unauthorized amendments to data files.

Performance was at average level. Some candidates provided irrelevant answers such as;

- Input controls
- Output controls
- Process control.

Some candidates had mentioned controls without referring to programs or data file. This indicates candidates poor knowledge on controls and not allocated marks.

Overall performance for this part of the question was at satisfactory level.

Question No. 09

This is also a scenario based question which allocated 25 marks. This question tested the candidates knowledge on below areas:

1. Application of analytical procedures to identify the risk areas.
2. Types of Audit procedures to gather audit evidence.
3. Audit procedures to be performed regarding Property, Plant and Equipment and Related parties.
4. Instances where the auditor can express an emphasis of matter paragraph in his report.

Part (a)

This part tested the candidates' knowledge on identifying the areas required special attention in performing audit procedures.

Performance was satisfactory and most of the candidates identified "where auditor needs further audit evidence". However, very few candidates provided irrelevant answers as they were unable to identify the requirement of the question.

They provided irrelevant answers such as:

- Names of all debtors
- Internal control weaknesses
- Impact of COVID-19.

Part (b)

It was required to state three types of audit procedures other than audit inquiries to be used in obtaining audit evidences with an example. Some candidates repeated Inquiry as an audit procedure and earned no marks. This also indicates candidate's poor understanding the requirement of the question. This may be due to the improper reading and not paying attention on the question.

Further, many candidates did not identify correct examples for the procedures they mentioned. This may be due to lack of practical experience of the candidates.

Part (c) & (d)

These 2 parts checked the candidates' knowledge on how auditor obtains audit evidence to enable him to form an appropriate audit opinion. To answer those types of questions practical experience on auditing is added more value. However, candidates can obtain the knowledge by referring to study materials.

Performance was not at satisfactory level.

Some candidates had given types of audit procedures such as Inspection, Observation and Valuation, etc. Significant number of candidates only discussed about depreciation in PPE auditing. (Depreciation Rate, Accuracy of calculation, Method of calculation, Record of depreciation, etc.)

The main reason for poor performance was lack of practical experience.

Part (e)

This part required to explain examples of circumstances where the auditor may consider it necessary to include an emphasis of matter paragraph. However, more than 80% of candidates were unable to answer this part because they did not have required understanding on the tested area.

Some irrelevant answers given by the candidates as example of circumstances where the auditor may consider to include an emphasis of matter paragraph.

- To give basic knowledge on specific audit area
- Limitation of scope by management
- Circumstances beyond control of the entity.

Candidates should improve their knowledge on circumstances where auditor express modified opinion and how it presents in the auditors' report.

Overall performance for this part of the question was good.

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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 to answer the questions based on the action verb list given at the end of the question paper.
- (4) Study the contents of the past papers and practice at least last 2-3 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 legible hand writing 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 the time for the questions based on the marks given and accordingly, the candidate should be able to answer all the questions given in the paper effectively.
- (13) Check twice whether all required questions were answered and appropriately numbered prior to hand over the answer scripts.