

EXAMINER'S REPORT**LEVEL III EXAMINATION - JANUARY 2022****(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 an average level.

Section A**Question No. 01**

Part (a) of the question required to identify three advantages to a company from the good Corporate Governance system and **part (b)** required, to state two components of organization's Governance Framework other than organizational structure. Both parts of the question were straight forward and direct answers could have been given. However, performance was at an average level. Few candidates who had clear understanding on Corporate Governance scored full marks. Some candidates scored very few marks for **part (a)** due to not having a general understanding on corporate governance.

For **part (b)**, some candidates repeated organizational structure and earned no marks and this indicates that candidates had not read the question with due attention.

Following are some irrelevant answers given by candidates for **part (b)**:

- Financial Structure
- Human Resources Management
- Transparency
- Internal Control

Candidates are advised to have understanding on following areas for scoring satisfactory marks:

1. Components of organization's Corporate Governance.
2. Principles and Advantages of having Corporate Governance.
3. Role of Board of Directors and functions of Audit Committee.

Overall performance of this question was at a satisfactory level.

Question No. 02

The question required to explain the internal risks faced by an organization with an example for each.

Performance for the question was at a satisfactory level. Most of the candidates had identified and explained internal risks faced by an organization but some candidates were unable to mention an example for each.

Candidates are advised to improve their knowledge on following areas:

- External and Internal risks of the organization.
- Risks management framework.
- Techniques used in mitigating risks.
- Identification, reporting and management of risks using Information Technology.
- Risks and opportunities of using Risk management framework.

Overall performance of this question was at a satisfactory level.

Question No. 03

It was required to relate the elements of the assurance engagement to the given scenario.

Considerable number of candidates had mentioned the elements of the assurance engagement but unable to relate the elements to the given scenario.

This indicates that candidates' poor understanding on assurance engagements and its elements.

Some mistakes made by candidates are as follows:

- **SJ (Pvt) Ltd.** mentioned as the intended user
- Concessionary loan recognized as subject matter
- Auditor's report recognized as evidence.

Candidates are advised to improve their knowledge on the following areas:

- What is an assurance engagement?
- Objectives of assurance engagement.
- Elements of assurance engagement.
- Key aspects and requirements when accepting and managing assurance engagement.
- Related services.

Overall performance of this question was below the average level.

Question No. 04

The question was based on Audit quality requirements for an audit of Financial Statements.

Part (a) of this question required to identify two methods that develop the competency of personnel employed in the audit firm. Although this is an easy question to earn marks, performance was not at a satisfactory level. This may be due to candidates' inability to understand the requirement of the question. Some irrelevant answers provided by the students are,

- Implement work from home strategy
- Performance evaluation
- Implement quality control requirements etc.

Part (b) of the question required to state three elements of system of quality control that a firm should establish and maintain. Performance was at an average level.

Unsuccessful candidates had mentioned policies, processes and procedures relating to elements of quality control system.

Eg. Supervision

Review

Independence

Confidentiality.

Overall performance of this question was at an average level.

Section B

Question No. 05

This question was based on risk assessment and audit process. Most of the candidates had attempted question but performance was not at a satisfactory level. This is due to not properly understanding the question.

So candidates are advised to give sufficient attention on following areas:

- Understanding the entity and environment.
- Audit Materiality.
- Audit documentation.
- Auditor's Responsibility relating to fraud.

For **part (a)**, very few candidates explained the term "Risk Assessment Procedure" correctly and earn marks.

Part (b) of the question required to state three risk assessment procedures. Performance was at average level and some irrelevant answers provided by the candidates are as follows:

- Risk reduction
- Risk Transfer
- Risk Avoidance
- Risk Acceptance.

Part (c) (i) required to state two risk factors to be considered in relation to HPL. Performance was satisfactory.

Part (c) (ii) required to explain the auditor's responsibility with reference to the prevention and detection of frauds. Performance was very poor.

Very few candidates mentioned that auditor should obtain reasonable assurance that financial statements are free from material misstatements due to fraud and error. They had also not mentioned about unavoidable risk due to inherent limitations in an audit.

Overall performance of this question was at an average level.

Question No. 06

Part (a) of the question required to state difference between professional skepticism and professional judgment. Almost all the candidates attempted the question and provided detailed explanations. However very few candidates stated the difference accurately. So candidates are advised to gain a fair understanding on general principles governing an audit such as Ethical requirements, Professional skepticism, Professional judgment etc.

Part (b) of the question required to explain two financial statements assertions relevant to Property Plant and Equipment. This is a straight forward question and direct answers could have been given. However, performance was at an average level.

Many candidates had provided following irrelevant answers and earned no marks:

- Disposal of assets
- Depreciation
- Revaluation

Part (c) of the question required to explain overall objective of the auditor. Most of the candidates had explained the objective but ignored following important terms:

- Obtaining reasonable assurance
- Consider Financial statements as a whole
- Enable the Auditor to express an opinion
- Applicable financial reporting framework
- Report on Financial Statements as required by SLAuSs.

Overall performance of this question was at average level.

Question No. 07

This question was based on fundamental principles of professional ethics which require complying with by AAT members.

Part (a) of the question require to explain three fundamentals principle of professional ethics and **part (b)** require to explain two threats to comply with the fundamental principles of ethics with an example.

Candidates who have fair knowledge on principles of professional ethics scored satisfactory marks. Other candidates provided irrelevant answers such as the following:

- Part (a)** - Leadership skills
- Age Limit
 - Greater accountability etc.

- Part (b)** - Conflicts due to different ideas
- Breaking rules and regulations
 - Making material misstatements etc.

Candidates are advised to have a fair knowledge on the following areas:

- Fundamental principles of professional ethics.
- Matters to be considered in accepting a new client.
- Threats to comply with fundamental principles.
- Safeguards to eliminate threats.
- Auditor's Independence concept

Overall performance of this question was at an average level.

Section C

Question No. 08

The question was a case study based question and tested the knowledge on internal controls, Business processes and IT controls. It expected candidates to define internal control, identify the internal control weaknesses, and state recommendations to overcome weaknesses in the given scenario.

Part (a)

It was required to define the term “Internal Control”. Handful of candidates defined the term accurately. This term defined in the study text clearly. This indicates candidates had not given due attention for studying relevant study text.

Some of the irrelevant answers provided by candidates:

- Internal control is process of management
- Developing and maintaining software system etc.

In defining Internal controls, candidates had to emphasize the following:

1. Internal control is a process implemented and maintained by those charged with governance.
2. Objectives of Internal Controls. (Reliability of financial reporting, effectiveness and efficiency of operations, compliance with laws and regulations)

Part (b) and (c)

Part (b) required to identify five internal control weaknesses in **AB (Pvt) Ltd.** and **part (c)** required to state a recommendation each to overcome the above weaknesses. Performance was at average level.

Some candidates had repeated information given in the question without identifying internal control weaknesses. This is due to poor knowledge on Internal Controls.

In giving recommendations most of the candidates mentioned general internal controls such as:

- Segregation of duties.
- Authorization and approval.
- Organizational Controls, Accounting controls etc., without considering the weaknesses identified and earned no marks.

Part (d)

Part (d) required to explain four IT general controls that are not properly designed in **AB (Pvt) Ltd.** with an example. To answer this question, candidates should have fair knowledge on General IT knowledge.

candidates who had fair knowledge had identified controls which are not properly designed and given examples, since referring the information given in the question, candidates can easily identify the examples. However, performance was at average level.

Part (e)

Part (e) required to state four elements of Controls Environment in COSO internal control system.

The study text clearly mentioned seven elements of control environment. However, performance was very poor. Some candidates provided irrelevant answers such as:

- Operational Control system
- Detective control system
- Mentoring
- Control analysis

Overall performance of this question was at an average level.

Question No. 09

Part (a)

This part required to identify five areas that need special attention in performing Audit procedures of Sam Ltd.

Performance was at satisfactory level since information given in the question contained more than ten areas.

Unsuccessful candidates provided irrelevant answers such as:

- Finance area.
- Operation area.
- Materiality level.

Part (b)

It was required to state four factors to be considered in determining audit materiality. This is a theoretical question and tested the technical knowledge on materiality. Performance was very poor. Only a handful of candidates scored marks for this part.

Part (c)

This part required to discuss the applicability of going concern assumption in preparing financial statements of Sam Ltd. Performance was at below average level. Some candidates had discussed going concern assumption in general but not consider uncertainties of Sam Ltd. Very few candidates mentioned the management's responsibility to assess the entity's ability to continue as going concern.

Candidates are advised to have fair knowledge on following areas.

- Going concern assumption.
- Events that may cast doubt about the going concern.
- Management's responsibility for going concern.
- Audit procedures for going concern reviews.
- Auditor's reporting.

Part (d)

This part required assessment of the impact of matters given in the question on audit opinion.

Performance was not at a satisfactory level.

Some candidates had quantified the impact but not assessed with the materiality level. Very few candidates mentioned about the total impact of the matters being material and if management does not agree to adjust auditor should modify the opinion.

Candidates are advised to improve their knowledge on the following areas:

- Quantifying impact of misstatements
- Assess with materiality
- Report accurately (Modify Auditor's Report)

Part (e)

This part required to explain two instances where the auditor shall modify the auditor's opinion. Performance was at average level and the study text clearly stated the instances where the auditor shall modify the auditor's opinion.

Overall performance of this question was at below the 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 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.