

EXAMINER'S REPORT**LEVEL III EXAMINATION - JULY 2020****(303) FINANCIAL CONTROLS & AUDIT**

Financial Control and Audit comprises 3 sections of 9 compulsory questions based on the study text.

Section A includes 4 questions of 5 marks each, **Section B** includes 3 questions of 10 marks each and **Section C** includes 2 questions of 25 marks each.

It was noted that most of the candidates have written answers to all 9 questions within the given time. The overall performance of the paper was satisfactory.

Section A**Question No. 01**

From **part (a)**, it was required to identify two principles of corporate governance and from **part (b)**, it was required to state guidelines on role of Board of Directors that have been highlighted by the Code of best practice on Corporate Governance.

For **part (a)**, considerable number of candidates have obtained very good marks. However, for **part (b)**, the answers given was not that satisfactory and many answers were incomplete and not specific to obtain full marks. Some of the irrelevant answers given by candidates are as follows:

- Eg: There should be executive and non-executive directors.
 There should be a Chairman.
 Activities should be transparent.
 Directors should have financial knowledge.

Overall performance of this question was not that satisfactory.

Question No. 02

It was required to state external risks and internal risks faced by an organization due to current pandemic situation.

Most of the students have answered in very good manner and this was a simple question where all could have obtained 5 marks. However, some students have understood the question in a different angle and did not refer to the scenario given. Some have interchanged the external risks with internal risks, that was the common mistake identified. Also, some answers written were not specific, such as:

Eg: political risk, economic risk, environmental risk, reputational risk and compliance risk, etc.

Overall performance of this question was at an average level.

Question No. 03

This question tested the knowledge of three-party relationship of an assurance engagement. Most of the candidates have answered well for this question.

Some candidates have just mentioned the three parties involved in an assurance engagement. But they have not explained the relationship between those parties. Hence, they could not gain full marks. Some have mixed up the responsibilities of each parties. Ex: Practitioner is responsible for the financial statements and responsible party is responsible for the audit opinion, etc.

Overall performance of this question was at satisfactory level.

Question No. 04

The question tested the knowledge of quality control procedures at the firm level and an individual audit level. **Part (a)** inquired about elements of quality control system and **part (b)** inquired about the activities that could be included on an individual engagement under the reviewing of working papers.

Candidates had answered satisfactorily for the **part (a)** of the question, but answers given for the **part (b)** was not at a satisfactory level. Some of the candidates had no knowledge regarding such activities. Some had given irrelevant answers such as Monitoring, supervision, observation etc.

Overall performance of this question was at an average level.

Section B

Question No. 05

This question consisted of 3 parts and tested the knowledge of candidates regarding audit report and audit opinion. Candidates had answered this question at a moderate level. For the **part (a)** and **(b)**, answers given by the candidates were at a satisfactory level. However, most of the candidates had not clearly link the matters considered in forming the audit opinion for **part (b)** and mentioned incomplete words which cannot be considered as the full answer. Eg: instead of “whether the accounting estimates made by the management are reasonable”, candidates have mentioned only “accounting estimates”. Instead of “whether the accounting policies selected and applied are consistent with financial reporting framework”, candidates have mentioned only “accounting policies” used etc.

Some students have no proper knowledge regarding audit opinion. Hence for the **part (c)**, without mentioning the types of modified opinion, some had mentioned two type as modified opinion and unmodified opinion.

Overall performance of this question was at a satisfactory level.

Question No. 06

This question tested the knowledge of threats to-compliance with the fundamental principle of ethics and safeguards in accepting the valuation assignments. This question was based on theoretical knowledge.

Most of the candidates had answered **part (a)** of the question which was tested regarding safeguards and earned satisfactory marks for that part. But for the **part (b)**, some students have not answered well. Even though most of the candidates have identified threats to compliance with fundamental principles, they were unable to explain those threats clearly. Hence, some candidates have given wrong explanations for threats. Ex: self-interest threat has been raised due to long relationship with client etc.

Overall performance of this question was at an average level.

Question No. 07

This question tested the knowledge regarding planning memorandum prepared for the audit engagement and Audit documentation. **Part (A)** of the question tested matters to be included in the planning memorandum and **part (B) (a)** tested matters that affected the form and content of the working papers and **part (B) (b)** tested types of information included in the permanent audit file.

Most of the candidates had attempted to answer the full question. Most of them had no proper knowledge regarding what the planning memorandum is, the uses of it and the information contained in it, etc.

Most of the candidates failed to answer **part (B)** of the question due to lack of practical experience regarding working papers and permanent audit file, etc. Some of them have mentioned the wrong information included in the permanent audit file. Eg: Audit evidence obtained in the last year audit, Audit procedures and methodology, audit reports of last year, etc.

Overall performance of this question was at an average level.

Section C

Question No. 08

Question consisted of 2 parts, **Part (A)** consisted of 4 sub parts as **(a), (b), (c)** and **(d)** and **Part (B)** had 3 sub parts as **(a), (b)** and **(c)**. Overall, the question tested the candidates' ability to understand the concepts of internal controls, control environment and IT controls based on the given case study.

Part (A)

Part (a) focused on identification of internal control weaknesses of the payroll system, **Part (b)** inquired about recommendations to overcome above weaknesses, and **Part (c)** objectives of effective payroll process. Most of the candidates have successfully attempted those 3 parts and scored full marks.

However, almost all the candidates have not answered **Part (c)** which tested knowledge of IT general controls and application controls. Candidates had no knowledge regarding IT controls. Some of the candidates who answered this part could not distinguish between respective controls and confused with general and application controls. Some candidates had given examples only for general controls.

Eg: Password controls, back-up, locking doors, firewall, etc. Most had no clear idea about application controls.

Part (B)

Part (a) tested the awareness of candidates regarding objectives of internal control system, **Part (b)** focused on knowledge of control activities, and **Part (c)** examined the concept of inherent limitation of internal controls.

Many candidates failed to understand the benefits of internal control system over the operation of the organization. Most of the students had mentioned general answers for the objectives of internal control system. Eg: achieve organizational objectives effectively and efficiently, segregation of duties among staff, etc.

Many candidates were not aware of the control activities clearly. Some of them have given general answers. Such as supervision, organization, etc.

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

Question No. 09

Question consisted of 2 parts, **Part (A)** had 5 sub parts as **(a), (b), (c), (d)** and **(e)** and **Part (B)** had 2 sub parts as **(a)** and **(b)**. This question was based on a case study and tested practical knowledge in conducting an audit of a company.

Part (A)

This part of the question tested the knowledge of students regarding identification of risk areas to perform audit procedures, test of controls, substantive procedures, identification and disclosures of related party transactions, etc.

- (a)** Focused on the knowledge of candidates in identification of risk areas on which special attention should be paid when performing audit procedures. Most of the candidates failed to identify risk areas. The reason for that is lack of practical training in auditing.
- (b)** Focused on situations, where confirmation can be used as an audit procedure. Most of the candidates attempted this question and scored marks satisfactorily.
- (c)** Tested the difference between Test of controls and Substantive procedures. Most of the candidates had given irrelevant answers for this part. Candidates had no clear idea regarding the difference between these auditing concepts.

(d) and (e)

Focused on related party transactions. Most of the candidates had clearly identified the responsible party for the identification of related party transactions. But some had mentioned irrelevant answers like Audit firm, practitioners, Managing director's spouse, etc. for **part (d)**. Some candidates failed to identify the risk area in the given company in identifying the related party transactions for **part (e)**.

Part B

This part of the question tested the knowledge of students about materiality assessment in an audit.

- (a) This part tested the importance of materiality assessment. Many candidates answered correctly this part and scored full marks.
- (b) Most of the students had no good understanding on how to calculate materiality level, what are the uses of materiality level, how an auditor can apply the materiality level in an audit. Due to lack of knowledge of practical application of the materiality level, students failed to attempt this part of the question and score satisfactory marks.

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 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.

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