

EXAMINER'S REPORT**LEVEL III EXAMINATION - JULY 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** contains 3 compulsory questions carrying 10 marks each, and **Section C** contains 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 on certain syllabus areas and lack of understanding of the requirement of the questions.

The overall performance was at an average level.

Section A**Question No. 01**

The question is based on the knowledge of business environment and required to assess the impact of the given factors relating to business activities of **Agro Life (Pvt) Ltd.** which is engaged in cultivating and selling vegetables. Almost all candidates had attempted the question and majority of candidates scored full marks. However, few candidates unnecessarily explained the impact by giving very lengthy answers by wasting their time.

Candidates are advised to have a reasonable knowledge on following subject areas to score satisfactory marks.

- Business Environment – Internal, External.
- Forces of internal and external environment - Resources and capabilities
- Factors of PESTEL
 - Political (Political stability, Tax policy),
 - Economic (Inflation, Interest rate, Exchange rate), Social, Technological and
 - Environmental, Legal

Overall performance of this question was at a satisfactory level.

Question No. 02

Part (a) of the question was requested to state three opportunities / benefits of using risk management framework. The study text clearly stated five opportunities with detailed explanations.

However, performance was at average level and most of the candidates provided irrelevant answers such as:

- Facilitate to express audit opinion.
- Risk can be reduced, shared, transfer
- Assess going concern of business

Part (b) required to identify two risk management tools connected with information technology. Performance was not at satisfactory level and most of the students provided irrelevant answers such as, Risk assessment, monitor & review, CCTV, Finger print, Password

Candidates should improve their knowledge on following subject areas to score higher marks:

- ✓ External & internal risks.
- ✓ Risk mitigating techniques and risk management tools.
- ✓ Benefits of risk management and risk of using risk management framework.

Overall performance of this question was at an average level.

Question No. 03

The question is purely based on assurance engagements. **Part (a)** was required to define the term “Assurance Engagement” and **part (b)** was required to identify three (03) key elements of an assurance engagement with reference to the given scenario.

The question is straight forward and direct answer could have been given.

Performance was at average level because most of the candidates had general idea about assurance engagement and key elements. However, they could not obtain full marks since they had not clear understanding on the relevant subject matter. Therefore, in defining assurance engagement, most of the candidates had not mentioned the following key words when defining “Assurance Engagement”:

- Practitioner
- Sufficient appropriate evidences
- Express a conclusion
- Enhance confidence
- Intended users
- Subject matter
- Certain criteria

To score satisfactory marks students are advised to pay more attention to all technical words relating to assurance engagement with reasonable understanding.

Most of the candidates attempted both parts of the question and obtained a considerable amount of marks for **part (b)** compared to **part (a)**. However, more candidates talk about statutory audit and lost marks for **part (a)**.

Part (b) correctly identified the elements under the given scenario and score the full marks.

Overall performance of this question was at a satisfactory level.

Question No. 04

This question tested the knowledge on the Quality control procedures of an audit firm's level. **Part (a)** asked two (02) requirements to be implemented by an audit firm for acceptance and continuation of client relationships and **part (b)** asked to explain two (02) activities included under the monitoring. That is a very specific theoretical question.

Performance was very poor. Most of the students had mentioned irrelevant answers such as,

- Issue engagement letter
- Fees and billing arrangement
- Documentation

Part (b) required to explain the activities included under the monitoring. Performance was not at satisfactory level. Following are some of irrelevant answer provided by the candidates:

- Observation
- Risk assessment
- Manage day today activities
- Supervision, review

Candidates should improve their knowledge on following areas:

- ✓ Objectives, elements and importance of quality control review.
- ✓ Independence
- ✓ Quality control requirement applicable for an audit of financial statements
- ✓ Acceptance and continuation of client's relationship and audit relationship and audit engagement.

Overall performance of this question was at an average level.

Section B

Question No. 05

This question consisted of 3 parts and **part (a)** requested to explain what is meant by sufficiency and appropriateness of audit evidences. Performance was at average level. Some candidates had mentioned that sufficiency measure quantity of audit evidence and appropriateness relates to the quality of audit evidence without explanation and not earned full marks. Some candidates mentioned general answers such as true and fair financial information, evidence without material misstatements etc. and not earned any marks.

Part (b) requested to explain relationship between risk of material misstatements and sufficient and appropriateness of audit evidence. Very few candidates explained satisfactorily and earned full marks.

Part (c) requested to identify four audit procedures regarding related party transactions. Performance was below average level more than average number of candidates have mentioned general audit procedures such as:

- Inquire
- Inspection
- Observation
- Re-calculation

and could not earn marks.

Overall performance of this question was at an average level.

Question No. 06

This question consisted of 3 parts and tested the knowledge of candidates regarding the element of audit report, emphasis mater paragraph, and the instances where auditor issued an adverse opinion.

Part (a) requested to state four elements of the Auditors Report. This was a very easy question and majority of the candidates scored full marks.

Some candidates had mentioned following irrelevant answers and scored lower marks:

- Audit evidences
- Working papers reviewing date
- Content of a normal book or report.

Part (b) of the question requested to explain what is meant by Emphasis of a Matter paragraph included in the auditor's report. Performance was not at satisfactory level. Most of the candidates had mentioned emphasis of a matter paragraph included when they are material misstatements in the financial statements.

Part (c) requested to explain an instance in which the auditor expresses an adverse opinion on financial statements. Performance was not at satisfactory level. Many candidates had mentioned about material misstatements but very few have considered pervasiveness to the financial statements.

Candidates are advised to improve their knowledge on following areas:

- Elements of an audit report.
- Types of audit opinion (modified, unmodified, qualified, adverse, disclaiming of opinion)
- Emphasis of matter paragraph and other matter paragraphs.

Overall performance of this question was at satisfactory level.

Question No. 07

Part (a) requested to assess three threats to compliance with the fundamental principals of ethics with reference to facts given in the question. Performance was at average level. Most of the students mentioned threats to compliance with independence instead of Principals of ethics. Some students had stated threats without assessing with facts given in the question.

Part (b) of the question requested to state four firm wide safeguards. Performance was below average level and some students have mentioned engagement specific safeguard rather than firm wide safeguards.

There is a 10% weightage for ethical requirement and candidates are advised to have clear understanding on following areas to score satisfactory marks:

- Importance of ethical behavior
- Fundamental principles of professional ethics.
- Threats to independence and ethical requirement
- Firm wide and engagement specific safeguards.

Overall performance of this question was at an average level.

Section C

Question No. 08

PART A

(a) Even though the question requested to identify matters that should be considered in preparing the overall audit strategy of **Crown (Pvt) Ltd.**, majority of candidates lightly answered and it is not align with information given in the question and also those were not adequate for allocating full marks. Some candidates were not given proper answers to this question even though all examples were available in the question itself.

Further some students did not have sufficient knowledge as to the meaning of audit strategy and how it applies at the initial stage of the audit. The main reason for lower marks is due to the poor attention given to read the question.

- (b) Performance was at average level. The reason for poor marks was candidates's poor knowledge on purpose of maintaining current working file and permanent audit file. Some candidates had listed documents included in current working file rather than in permanent file.

Eg. Payment vouchers, Invoices, Financial Statements.

- (c) This part of the question required to state four reasons why materiality is important for an auditor. This is a straight forward question and direct answers could have been given. However, performance was at average level.

Some candidates had provided following irrelevant answer and earned no marks:

- To correct errors
- To prepare financial statements

- (d) This part requested to identify four written representations that you may obtain in respect of an audit. Performance was poor. The reason is candidates's poor technical knowledge on tested area. Many candidates had written totally irrelevant answers such as, engagement letter, audit report, cash flows, etc.

PART B

- (a) It was requested to explain what is meant by the deficiencies in internal controls. Majority of the candidates have attempted this part and perfect answer was given by very few candidates. Many candidates had given answers on their general understanding on internal controls. Therefore, candidates are advised to improve their knowledge on relevant subject area with appropriate technical words.
- (b) This part requested to assess the impact of deficiencies in internal controls of **Crown** based on the information given in the question. Majority of candidates had identified deficiencies in internal controls, but, unable to assess the impact of them. That indicates candidate's inability to use their theoretical knowledge in real business environment.

Overall performance of this question was at a satisfactory level.

Question No. 09

PART A

- (a) It was required to recognize elements of internal control system as per COSO framework that appears to be weak in **Jaliya Batiks** based on the given facts. Performance was not at satisfactory level. Most of the candidates had recognized elements of internal control system but unable to link with facts given in the question. If candidates had practiced several past question papers it will be able to earn higher marks for questions like this.
- (b) This part was requested to explain importance of having strong internal control system. This is also straight forward question and if candidates had given reasonable concern to study the relevant study text, it clearly explains the importance of internal control system. Performance for this part was average level and candidates are advised to give proper attention for the study text.
- (c) This part requested to identify two inherent limitations of an internal control system. Performance was at average level. Some students provided general answers and unable to earn full marks.

PART B

Part (a) and (b)

Part (a) required to identify five internal controls weaknesses in cash management process of **Jaliya Batiks** and **part (b)** required to state recommendations to overcome the above weaknesses. Performance was at satisfactory level.

Some candidates had repeated information given in the question without identifying internal control weaknesses and some had given recommendations without identifying relevant weaknesses.

To score satisfactory marks for this type of question candidates should:

- Read question at least twice.
 - Identify key issues and priorities issues using their knowledge in internal controls.
 - Make valid recommendations addressing the identified issues.
- (c) This part requested to list two general IT controls with an example each that consider in implementing information system. Performance was at average level.
- Most of candidates had not clearly distinguished controls and examples because their poor understanding on IT controls.

Overall performance of this question was at a satisfactory level

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.