

EXAMINER'S REPORT

LEVEL III EXAMINATION - JANUARY 2025

(303) FINANCIAL CONTROLS & AUDITSection A**Question No. 01**

This theoretical question asked to explain three economic factors that negatively impacted the company under the given scenario. Almost all the candidates attempted the question and scored more than average mark. However, some candidates focused on political issues and unrelated topics instead of addressing the specific economic factors relevant to the scenario.

As a whole, performance for this question was at a satisfactory level.

Question No. 02

This question required candidates to explain two internal risks indicated in the scenario of **Coco PLC**. Almost all candidates attempted the question; however average number of candidates identified and explained risks specifically related to the company. Many candidates lost marks because their answers did not effectively connect to the question.

As a whole, performance for this question was at a moderate level.

Question No. 03

This was a well-structured question and tested the knowledge of audit procedures. It was requested to explain two (2) types of audit procedures to obtain audit evidences, with examples for each audit procedures. The majority of candidates attempted the question and explained the audit procedures correctly, but some have failed to provide examples. Some candidates provided incorrect answers such as simply stating the need to check details and their classification, categorizing them as internal and external, giving lengthy explanations of positive and negative confirmation, discussing the relevance and appropriateness of audit evidence, risk assessment and its framework.

As a whole, performance for this question was at a satisfactory level.

Question No. 04

The question focused on the firm's quality control system. Most of the candidates attempted the question, but many provided unrelated answers for **part (a)**, which requested to identify two (2) elements of a system of a quality control and few scored full marks. **Part (b)** was attempted by few candidates with poor understanding of the question asked on matters to be addressed by the audit firm for consistency in the quality of engagement performance and the responses were not at a satisfactory level. The common weaknesses observed were a lack of familiarity with the subject area, poor reading of the study pack and insufficient knowledge of quality control at a firm level.

As a whole, performance for this question was at a satisfactory level.

Section B

Question No. 05

This is a 10 marks question consisted of three parts.

- (a) Candidates scored above average mark for this part of the question. However, they have faced challenges in applying theoretical knowledge to practical scenarios involving going concern issues. Many candidates have incorrectly applied having the same director in two companies with going concern uncertainty, mistakenly conflating governance-related risks with financial or operational risks. Additionally, their responses often lacked sufficient justification and critical analysis, failing to adequately reference relevant accounting & auditing standards such as LKAS 1 and SLAuS 570. This oversight highlighted a need for clearer understanding of the primary factors affecting an entity's ability to continue as a going concern.
- (b) This was a straightforward theoretical question about audit procedures needed to perform in auditing the loan given to a related party. However, most of the candidates did not recognize **BCC** as a related party, leading to poor responses. Many were unfamiliar with audit procedures for verifying related party balances.
- (c) Most of the candidates misunderstood the question and provided irrelevant answers and scored lower marks. A few provided lengthy responses including irrelevant information, reflecting a lack of knowledge and theoretical understanding. This was exacerbated by inadequate practice with case-based questions and improper structuring of answers, which failed to ensure clarity, technical accuracy, and proper reference to applicable standards.

As a whole, performance for this question was at a poor level.

Question No. 06

The question assessed knowledge of fundamental principles of ethics and the steps to reduce / eliminate identified threats for the given scenario. It was a fairly good question.

- (a) Most of the candidates were familiar with the concepts of independence, objectivity and integrity and successfully described related threats scoring above average marks.

However, some candidates confused threats with fundamental principles and incorrectly identified threats such as intimidation threat and advocacy threat due to the upcoming tax business and **Sachin's** assistance to the accountant in preparing the tax computation. Some candidates applied theoretical knowledge without linking it to the scenario, discussing irrelevant topics such as the introduction of new tax laws.
- (b) Candidates provided corrected answers by stating steps to be implemented to reduce the threats. Such as self-interest, self-review and familiarity.

As a whole, performance for this question was at a satisfactory level.

Question No. 07

The question consists of two parts, with **part (a)** focusing on the modification of the auditor's opinion in the presence of material and pervasive differences relate to the scenario described. Candidates found it challenging as they struggled to fully understand the examiner's expectations and described the consequences of unadjusted material variations in stock valuation. Some candidates failed to emphasize the importance of materiality levels and material misstatements in relation to auditing standards, such as the impact on profitability (which turned into a loss) and the financial statements in overall. Few candidates incorrectly focused on the price of materials or stock items and their impact, rather than addressing the systemic effects of the misstatement. Some candidates suggested issuing an adverse opinion and the rest recommended modifying or qualifying it based on the engagement partner's discretion.

Part (b) aimed to evaluate candidates' knowledge of the elements of an audit report. Most of the candidates performed well on this part, as the elements are consistent regardless of the specific scenario.

As a whole, performance for this question was at a moderate level.

Section C

Question No. 08

This is a 25 marks question consisting of 5 parts, assessing candidates' understanding of auditing in a manufacturing environment, with a focus on process and internal controls. It requires the application of theoretical knowledge and the evaluation of issues identified by the internal audit team.

- (a) Required to identify key business processes.
- (b) Required to identify weaknesses in the existing system with recommendations.
- (c) Required to explain control activities to be implemented.
- (d) Required to state examples of general controls for preventing and detecting unauthorized program changes.
- (e) Required to state signs that may result in deficiencies in any internal control systems in general.

The answers indicated that many candidates were familiar with the question structure. While most attempted the question and performed well for parts **(a)**, **(b)**, and **(d)**. Responses to parts **(c)** and **(e)** were weaker, due to misunderstandings or a lack of familiarity with these specific areas.

- (a) Most candidates attempted the question and correctly identified the processes, some of the candidates used slightly different technical wording in Sinhala. The majority candidates scored full marks.
- (b) Most of the candidates attempted this part and scored more than average marks by providing appropriate answers, identifying weaknesses, and suggesting recommendations for internal control weakness. However, a few candidates mistakenly repeated their **Part (a)** responses due to a misunderstanding.

- (c) Although a considerable number of candidates attempted this part of the question, the responses were generally poor. Most candidates struggled to understand the question and provided irrelevant information, leading to wasted time.
- (d) Most of the candidates attempted this part and provided correct answers, as it was a straightforward general question.
- (e) This was a well-structured question to assess candidates' knowledge without repeating similar question types. While the question was well-framed, some candidates were confused and provided irrelevant answers. A few candidates scored full marks.

As a whole, performance for this question was at a satisfactory level.

Question No. 09

This is a scenario-based question worth 25 marks, designed to assess the candidate's audit skills and knowledge in key areas. It includes the importance of planning, identifying risk areas in the **Malcom PLC** based on the provided information, difference between reasonable assurance engagement and limited assurance engagement, fraudulent financial reporting, responsibility of management of the **Malcom PLC** regarding the prevention and detection of frauds, communicating findings with management and those charged with governance related to the scenario.

- (a) Most candidates attempted the question and provide fairly good answers. However, some candidates failed to identify the risk areas for the given scenario due to misunderstanding the question. They provided irrelevant answers such as referencing the finance department, human resource section, management, etc. Some provided general answers, mentioning areas like cash without relating them to the given scenario.
- (b) A considerable number of candidates effectively explained the differences between reasonable and limited assurance engagements, and scored good marks.
- (c) Some candidates provided general answers from the audit firm perspective without referring to the specifically given audit. However, the majority of candidates successfully linked their answers to the provided facts. Nonetheless, there were also irrelevant responses, such as stating that audit planning improves firm efficiency and profitability, helps management to operate smoothly, or prevents fraud.
- (d) (i) Many candidates answered this using general knowledge, simply explaining the word "fraud" leading to earn a few marks. The majority correctly described it as intentionally manipulating information for personal benefit, such as altering original records to falsify financial statements. However, a significant number of candidates failed to explicitly use the term "intentionally" and instead relied on the given word "fraudulent."
- (ii) The majority did not attempt this part. However, those who answered well, correctly stated that preventing and detecting fraud is the responsibility of management, thereby earning marks.

- (e) This question required to explain matters to be communicated to management and those charged with governance. The majority of candidates did not attempt this question and the answers provided by the rest were generally poor.

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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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