

EXAMINER'S REPORT**LEVEL III EXAMINATION - JANUARY 2024****(303) FINANCIAL CONTROLS & AUDIT**

Section A**Question No. 01**

Part (a) of this question requested to state two types of business organizations accessible to sole proprietors while **(b)** expected to identify the given legal aspects relating to the organizations which are identified in the **(a) part**.

Almost all candidates addressed both sections of the question. They have successfully earned full marks for **part (a)** by giving partnership and limited liability company as answers. However, some candidates have given irrelevant answers due to the misunderstanding of the **part (b)**.

Overall performance was good.

Question No. 02

The question is straightforward, focusing on the benefits of using risk management, the identification of business risks, and the timely implementation of measures to mitigate those risks within the organization.

A significant number of candidates attempted the question; however, only a few achieved full marks. This is primarily because many candidates mistakenly explained risk assessment procedures instead of focusing on the benefits of risk management, as required by the question.

The overall performance was unsatisfactory.

Question No. 03

- (a)** This question examined the involvement of three parties in an assurance engagement. While most respondents provided accurate explanations, a few incorrectly described the users of financial information.
- (b)** The question focused on distinguishing between a "Reasonable Assurance Engagement" and a "Limited Assurance Engagement." The majority of candidates demonstrated a good understanding and scored higher marks.

Overall performance was satisfactory.

Question No. 04

- (a) Discuss the independence required by a firm under relevant ethical requirements within its quality control system.

Few candidates have correctly identified the specified area for their answers. The majority focused on independence as described in 8.3 of Chapter 8 ethical requirements, while some elaborated on appearance and mindset distinctions. A few included explanations of special situations and relationships creating threats. Some unnecessarily explained the six elements of a quality control system and the principles of the code of ethics.

- (b) This part involves listing considerations under "Review" of an individual audit engagement. Average number of candidates attempted the question, with the majority scored higher marks allocated to this part. Many provided general answers related to evidence gathering, while some merely listed auditing technical terms such as Audit Evidence, Scope, and Professional Skepticism.

Overall performance of this question was at an average level.

Section B

Question No. 05

- (a) The examiner tested the matters that the auditor may consider when establishing an overall audit strategy and the areas to be drawn attention to in the given scenario.

A larger number of candidates successfully attempted this question, where they provided basic and general points about the company's transition from construction to the gems business. However, they often missed specific areas such as the utilization of experts to value gems and ensuring compliance with gem export regulations and quality standards in production.

- (b) Candidates found it challenging to identify specific areas needing attention in the given scenario, especially regarding compliance with reporting requirements in the gems and jewelry sector and the use of subject experts. Instead, they gave general answers.

However, most candidates still scored marks above the average for this question.

Overall performance of this question was at a satisfactory level.

Question No. 06

- (a) This part was inquired to define the term fraud, and nearly all candidates attempted it, with a large number of candidates receiving full marks.
- (b) It was tested the auditor's responsibility regarding fraud of the financial statements. Only a few candidates answered this part very well, while most mentioned that auditors have to conduct additional work and provide a separate report to the directors on fraud. This indicates a lack of fundamental understanding of the roles and responsibilities of both management and external auditors in the context of fraud detection and reporting.
- (c) Received satisfactory responses, as the question itself provided ample evidence for the answer. Only a small number of candidates elaborated on the specific situation or incident where fraudulent financial reporting occurred.

Overall performance on this question was moderate.

Question No. 07

This question presents a specific scenario related to accepting a new engagement, identifying threats associated with it, and proposing ways to mitigate those threats.

- (a) It was expected to explain key aspects and requirements need to consider when accepting the external audit engagements and almost all the candidates have attempted this question. Majority of them earned a significant number of marks as it primarily asked for explanations on two aspects in a broad manner.

(b) & (c)

However, Candidates have failed to provide proper answers for **parts (b) and (c)** as candidates failed to identify the related threats to mitigate. Few identified the correct threats but explained something else. Unfortunately, a majority of candidates struggled with **part (c)** because it depended on **part (b)**.

Overall performance on this question was poor.

Section C

Question No. 08

This questions addresses internal controls and procedures, covering:

Majority of candidates attempted the question and scored more than average of the allocated marks, drawing on both practical experiences and knowledge from study materials, particularly study packs.

- (a) This question was expected to identify significant deficiencies in internal control within the given scenario and proposing recommendations. Almost all candidates attempted this part. However, despite the answers being present in the question itself, very few failed to score full marks for this part.
- (b) It was expected to suggest control activities related to purchasing and inventory, and explaining the meaning of "Effectiveness and Efficiency of Operations" as an objective of an internal control system. Majority of candidates attempted this question, but many failed to obtain a considerable amount of marks. This was due to the failure to properly identify weaknesses in the purchasing and inventory system process. Additionally, many struggled to explain the second part of the question, providing inadequate explanations of "Effectiveness and Efficiency of Operations" and often offering mere word or personal definitions.
- (c) It was requested to state the inherent limitations of the internal control system remained largely unanswered by the majority of candidates.
- (d) This part tested the general and application controls related to the sales system. Most candidates attempted it and scored marks by providing examples, although they demonstrated limited knowledge of IT controls.

The overall performance for this section of the question was at an average level.

Question No. 09

Part (A)

This question tested the knowledge about analytical review procedures, the appropriateness of audit procedures performed over related party transactions, and the responsibility for identifying related party transactions. It also assesses audit procedures that can be performed in reviewing events after the reporting period.

A majority of the candidates attempted the task and scored full marks for identifying analytical procedures. However, the explanation regarding the responsibility for identifying related party transactions was poor, with many stating it is the management's duty. Additionally, assessing the appropriateness of audit procedures performed over related party transactions was inadequately addressed, with a large number of candidates failing to provide proper responses.

Reviewing events after the reporting period is a straightforward question and majority of candidates attempted and scored marks.

Part B

This is an excellent question for evaluating candidates' knowledge of judgment and how to form an opinion in three different scenarios.

Under scenario A, the majority of candidates correctly identified that it should be an adverse opinion due to its materiality and pervasiveness.

Under scenario B, few candidates responded well, indicating that it should be a qualified opinion because it is material but not pervasive.

Under scenario C, a larger number of candidates believed that it was a scope limitation and suggested giving an adverse opinion, while very few stated that a qualified opinion should be given. In both scenarios B and C, some candidates generally mentioned giving a modified opinion but did not specify the type of modification.

The overall performance for this section of the question was at minimal 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.