

EXAMINER'S REPORT**LEVEL III EXAMINATION - JULY 2024****(303) FINANCIAL CONTROLS & AUDIT****Section A****Question No. 01**

This is a straightforward theoretical question on the "stewardship role" and the importance of an audit to shareholders. Almost all the candidates attempted the question, majority achieved full marks. A few candidates approached it from the company's perspective, discussing the impact on internal controls rather than focusing on shareholders. Overall, the responses were satisfactory.

Question No. 02

This question, framed in a practical context, focuses on the risk management tools used by an e-marketing company for placing orders and settling advertising via its website. Although all candidates attempted the question, only few candidates scored full marks. While some mentioned the correct tools, many candidates provided irrelevant explanations.

The overall responses were poor, reflecting a lack of understanding, and the answers were generally unsatisfactory

Question No. 03

This theoretical question directly references the COSO framework.

- (a)** Most candidates attempted this part by correctly describing that financial statement preparation is the responsibility of management and should comply with acceptable accounting standards. However, a few candidates misunderstood the question, providing poor answers focused on audit opinions, materiality, and internal controls related to fraud and error.
- (b)** A good percentage of candidates provided strong answers, though a few discussed topics such as the organizational environment, audit procedures, and financial reporting, reflecting a misunderstanding of the question.

Overall, the candidates' responses were fairly good.

Question No. 04

The question asked about the matters included in the guidelines for supervising individual audit engagements. However, many candidates misunderstood the question and provided irrelevant answers, discussing topics such as GRN (Goods Received Note), tax returns, the content of audit reports, internal control systems, and even some aspects of auditing standards.

A small percentage of candidates achieved full marks, and overall, the answers were poor.

Section B

Question No. 05

This consists of two parts and majority of candidates attempted this question.

- (a) Although the scenario presented different aspects, the question clearly references the theoretical components outlined in the study pack. Several candidates explained types of control instead of focusing specifically on control activities.
- (b) Misunderstandings arose regarding whether the response should relate to the scenario described. Some candidates interpreted it in connection with the scenario and based their answers on the perspective of an internal auditor, whose scope of work is defined by management, including the chairman. Comments regarding the auditor were primarily centered on their ability to identify risks and fraud at the organizational level. However, marks were awarded based on the answers provided in the scripts. Some candidates earned marks by referencing the inherent limitations of internal controls.

Question No. 06

The question clearly focuses on the given scenario.

Part (a) Tested the identification of three control weaknesses, and **Part (b)** requests recommendations for the identified weaknesses. Most of the candidates attempted these parts and provided reasonably correct answers, as the scenario was clearly described. However, some failed to properly address the identified weaknesses. For instance, they mentioned "overtime calculated by finance and banked" as a weakness but proposed a recommendation like implementing fingerprint attendance, which was not directly related.

Part (c) asks for two general controls with examples, specifically related to IT controls. Full marks were awarded to candidates who provided answers from the study pack.

Overall performance on this question was average.

Question No. 07

- (a) The question aimed to assess candidates' knowledge on the procedures to follow before accepting a new audit engagement. However, most of the candidates misunderstood the question due to the word "procedures" and provided irrelevant answers, such as the nature of related party transactions, review of past financial statements, and board minutes. The performance was unsatisfactory.
- (b) This aimed to assess candidates' knowledge of independence and threats to compliance:
 - (1) Audit partner's spouse joined as financial controller of the audit client: The majority of candidates explained the impact on independence and self-interest, stating that the engagement should not be accepted. Most of candidates who answered the question received full marks.

- (2) Partner invested in Unit Trust audited by the same firm: Some candidates provided irrelevant answers due to misunderstanding the question. However, a few correctly identified the threat to independence and advised not to accept the engagement.
- (3) Firm obtained a material loan from a bank audited by the firm: Candidates showed uncertainty, as the loan was taken by the firm and not an individual partner. Most advised not to accept the audit, focusing solely on independence without considering whether the loan was obtained under normal banking conditions.

In 1st and 2nd cases most of candidates suggested not accepting the engagement, while a few mentioned mitigating risks through close monitoring by another partner. In 3rd case candidates showed a lack of clarity regarding whether the firm's loan from the audited bank impacts independence, leading to confusion in their responses. Although the bank grants loans under its normal course of business, candidates with practical experience in audit engagements would likely handle such questions more effectively.

The overall performance of the question was at moderate level.

Section C

Question No. 08

This is a 25 marks question consisting of five parts, testing various aspects of knowledge within the auditing process, from acceptance to issuing an opinion at the completion of the audit. Although this question is designed to assess the application of theoretical knowledge and the evaluation of subjective issues to form an opinion, **parts (a) to (d)** are fundamental theoretical questions that candidates can answer if they have a basic understanding of auditing standards.

- (a) This relates to the elements of an engagement.
- (b) This addresses the conditions or situations where an auditor might issue a revised or new engagement letter.
- (c) This covers matters to be enquired from management.
- (d) This explains the importance of materiality in auditing.

None of these parts require judgment or subjective evaluation, as they focus on theoretical concepts.

The responses indicated that many candidates are not familiar with auditing standards. While most attempted the question, and the majority scored reasonably well in **parts (a), (b), and (d)**. There was a poor responses for **part (c)**, likely due to a misunderstanding of the question.

The responses to this question indicate that most students are not familiar with auditing standards. While most candidates attempted the question and scored reasonably well in parts **a, b, and d**, there were poor answers for **part c**, likely due to a misunderstanding of the question.

- (e)** Required to evaluate the identified misstatements prior to communicate with Those Charged with Governance. The following observations were made regarding candidates' responses:
- (1) A few candidates correctly noted that the issue should not be considered material since it is below the materiality level and has no impact on the opinion. However, the majority had gave irrelevant answers, suggesting actions like auditor should correct the issue, conduct a special investigation of the system, etc.
 - (2) Similar to the first issue, very few candidates advised requesting management to correct the issue, since the aggregate amount exceeds the materiality level, and if management refuses, the auditor should consider modifying the opinion. Some suggested using an adverse opinion due to scope limitation, but most of the candidates had no understanding of aggregate differences. They assumed the auditor would make the necessary adjustments without mentioning anything about the opinion, disagreement, or scope limitation.
 - (3) A considerable number of candidates correctly stated that this issue would not impact the opinion since it was agreed that the necessary adjustment would be made.
 - (4) Most of the candidates incorrectly stated that there is no need to issue a new engagement letter despite the engagement partner being rotated. They failed to recognize the change in ownership during the year. The engagement partner believed it was better to send a new engagement letter, and there would be no harm in issuing one, but this was not identified by most candidates.

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

Question No. 09

This scenario question for 25 marks, and tested the candidates knowledge of few specific areas like evaluating evidence and appropriateness of the confirmation procedure, impact of specific fee to the opinion, circumstances to consider emphasis matter para and identification of going concern.

- (a)** Though this question presented a scenario, it was a direct inquiry aimed at assessing the quality of the evidence provided in various forms. Upon reviewing the candidates' responses, it appears that many struggled to understand the question, focusing on describing the evidence instead of critically evaluating its reliability and effectiveness. Consequently, they failed to assess the strength of the evidence properly.
- (b)** Most of the candidates failed to mention crucial aspects such as the loan verification being handled by a junior auditor, the reliability of the bank confirmation, and the importance of addressing loan covenant violations. Additionally, they overlooked the significance of obtaining a legal opinion or lawyer's confirmation regarding the letter of demand. These key points were necessary to achieve full marks.

- (c)** There seems to be a significant misunderstanding regarding the special fee paid for obtaining permission to import a generator. The primary issue lies in categorization. Some candidates are interpreting this in various ways: a few believe the special fees were paid to the auditor, while others suspect bribery and have reported the matter as fraud for investigation. Many candidates struggled to earn marks due to their failure to compare the amount with the materiality level and adequately justify their qualification of the opinion, citing a lack of appropriate evidence. Nevertheless, some candidates suggested that the opinion should be drafted accordingly.
- (d)** The majority of candidates provided strong responses, effectively incorporating both theory and relevant facts, and consequently received full marks.

The overall performance for this section of the question was poor 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.