

EXAMINER'S REPORT**LEVEL 03 EXAMINATION - JULY 2026****(3803) RISK, CONTROLS & AUDIT**

Section A**Question No. 01**

This straightforward theoretical question tests candidates' knowledge and understanding of two fundamental concepts: "Agency Theory" and "Stewardship Theory". It also evaluates their ability to contrast the core assumptions and practical implications of both theories regarding shareholder-management relationships in listed companies.

A small number of candidates demonstrated a precise grasp of both Agency Theory and Stewardship Theory. Candidates offered broad explanations of corporate governance and board-shareholder dynamics, but failed to address the specific details of the two required theories.

The majority of candidates showed weak or nonexistent comprehension of Agency Theory and Stewardship Theory. A notable portion submitted irrelevant responses or focused on generic management practices without addressing the foundational principles and assumptions of either theory.

Overall, candidate performance on this task was poor. A majority of candidates displayed insufficient knowledge of Agency Theory and Stewardship Theory, with many relying on vague discussions of general corporate governance.

Question No. 02

This question tests candidates' knowledge and understanding of the objectives of two core assurance services: Financial Statement Audits (Statutory Audits) and Compliance Audits. It also assesses their ability to explain the purpose and practical relevance of these engagements within an organizational context.

However, majority of the candidates failed to demonstrate an adequate grasp of the specific objective of a Compliance Audit. Many provided generic explanations of general auditing or financial reporting instead of focusing on compliance criteria. This reflects a clear knowledge gap regarding the distinct scope of this assurance service.

Overall, candidates showed a reasonable understanding of Financial Statement Audits, but performance on Compliance Audits was poor.

Question No. 03

This question comprises two parts.

- (a) This focused on business processes and the importance to an auditor of identifying independent business processes. The majority of candidates highlighted benefits to the entity or business rather than to the auditor, failing to score marks on this section.
- (b) This requested candidates to outline the advantages of using digital tools in business processes. Most candidates attempted this part and scored full marks by providing accurate, well-reasoned answers.

Overall performance on this question was moderate, largely dragged down by poor responses to **part (a)**.

Question No. 04

This was a fairly solid scenario-based question focusing on serious governance and compliance concerns. The scenario highlighted a company facing market share losses from low-cost imports, alongside recent discoveries of major fraud involving the Head of Sales and a failure to meet statutory financial reporting deadlines.

Part (a) asked candidates to identify internal risks, while **Part (b)** focused on data analytics techniques used for effective risk management.

Performance on **Part (a)** was poor, as candidates generally failed to tailor their responses to the specific case facts. Only a few attempted practical examples, and very few correctly identified the primary risk areas. Conversely, **Part (b)** was answered satisfactorily, with most candidates providing relevant answer.

Overall, candidate performance was fairly good, largely bolstered by strong responses in **Part (b)**.

Section B

Question No. 05

This was a simple scenario-based question with three parts, totaling 10 marks.

Part (a) focused on related party transactions as a governance mechanism to ensure compliance, transparency, and accountability. Most candidates failed to score on this part due to a lack of core knowledge and poor understanding, resulting in irrelevant responses.

Part (b) related directly to the scenario, asking how business processes could be automated at **Nimna Holdings (Pvt) Ltd.** A considerable number of candidates attempted this section.

Part (c) tested general knowledge by asking candidates to identify the challenges of using digital tools in business processes. Most candidates handled this part satisfactorily.

Overall performance on this question was average.

Question No. 06

This is a limited facts, small scenario-based question with three parts, totaling 10 marks, focused on a construction company covering risk mitigation techniques, digital transformation-related risks, and risk assessment within the Risk Management Framework.

Majority of candidates attempt **part (a)**, scoring an average of 2 out of 4 marks. Very few successfully identified the risk indicators, and candidates generally failed to focus on the scenario effectively.

Part (b) question tested to mention digital transformation related risk. Candidates failed to understand the question requirements, resulting in off-topic and irrelevant answers. However, some candidates had scored marks by uplifting their knowledge in IT.

Part (c) Candidates misunderstood the requirements on explaining the meaning of risk and provided lengthy, off-topic answers, unnecessarily linking responses to the scenario when a purely conceptual answer was expected.

Overall performance was very poor, primarily due to candidates failing to understand the question requirements, grasp basic risk management concepts, and focus on the core examiner expectations, resulting in irrelevant answers with unnecessary elaboration.

Question No. 07

Part (a): This section tested candidates' knowledge of sustainable practices in a company's purchasing policy. Most of the candidates demonstrated a lack of understanding of sustainable practices and their classification, failing to identify valid examples such as fair trade, ethical sourcing, or environmentally friendly supplier selection, and consequently. Candidates failed to earn the full marks allocated to the question.

Part (b): This application-based question evaluated risks associated with the company's inventory management. While responses often leaned toward generic points, most candidates performed reasonably well, identifying key inventory management risks and.

Part (c): This section tested theoretical knowledge on the inherent limitations of an internal control system. Well-prepared candidates demonstrated a solid understanding of the topic, achieving an average score.

While most candidates secured passing marks on **Parts (b) and (c)**, few achieved full marks due to a lack of theoretical depth and incomplete explanations.

The primary reason for underperformance was candidates providing repetitive answers across parts or basing responses on personal assumptions rather than established auditing and ethical standards. Candidates are advised to read each part carefully and tailor their responses accordingly. Overall performance was average.

Section C

Question No. 08

This 25 mark, six part question tests a few areas of knowledge, including internal controls, processes, audit threats and safeguards, data analytics, and the code of ethics.

Part (a): Consist of 2 theoretical parts.

- (i) Most candidates struggled with the concept of "Risk Appetite," providing literal definitions rather than identifying it as the level and type of risk an organization is willing to accept. As a result, scores for this part of the question were generally low.
- (ii) Most candidates struggled with this question, often confusing the COSO Internal Control framework with the COSO ERM framework. As a result, very few correctly identified the required ERM elements, leading to a low overall score for this section.

Part (b): Candidates performed fairly well in this section, demonstrating a reasonable understanding of risk mitigation strategies.

Part (c): Performance on the AI and data analytics section was average. Most candidates outlined standard internal audit procedures or basic technological tools rather than explaining how internal auditors can specifically leverage AI and data analytics to verify laboratory and pharmacy revenue.

Part (d): Performance on this direct theoretical question on internal audit functions was mixed. While average number of candidates achieved full marks, many struggled to clearly distinguish between the roles of internal and external audit.

Part (e): Fundamental principles of ethics in auditing were tested. Most candidates focused solely on familiarity threats, overlooking other relevant categories. Additionally, responses frequently restated case facts without applying formal ethical terminology such as intimidation or self-interest threats, reflecting a lack of underlying technical knowledge.

Part (f): Safeguards to eliminate or reduce above identified treats were tested. The candidates successfully outlined appropriate actions to address the identified risks, the remaining half struggled to apply suitable safeguards.

Overall performance across this question was satisfactory. **Parts (b), (d), and (f)** were answered well by most of the candidates. However, **parts (a) and (e)** reflected weak theoretical knowledge. Performance on **part (c)** was limited by candidates' inability to apply AI and data analytics concepts to practical internal audit contexts.

Question No. 09

Designed for a total of 25 marks, this scenario-based question evaluates the practical application of core auditing principles and skills, limited to six specified functional areas.

- (a) This section required candidates to identify key audit focus areas from the scenario. Being a straightforward identification task, most candidates successfully recognized the highlighted risk indicators, such as recurring losses, aggressive expansion, weak internal controls, and fraud risks and scored full marks.
- (b) This section required candidates to apply the Fraud Triangle to the scenario rather than merely stating that revenue recognition carried a fraud risk. While most candidates identified the risk, many struggled to explain the underlying elements of 'pressure' and 'rationalization'.

Higher scoring candidates explicitly labeled and applied all three elements: Pressure (sales incentives tied to revenue targets), Opportunity (bill-and-hold arrangements and excess stock), and Rationalization (management prioritizing growth over compliance). To earn full marks, candidates must identify each element and link it directly to specific evidence in the case study.

- (c) This purely theoretical question assessed candidates' knowledge of the factors considered in determining audit materiality. Well-prepared candidates scored full marks; however, overall performance remained below average, indicating a gap in syllabus coverage during study rather than difficulty in applying concepts. To secure full marks on such direct recall tasks, candidates must prioritize memorizing the standard materiality benchmark factors such as the nature and volatility of the entity, key user metrics, ownership structure, and the industry or regulatory environment for accurate recall under exam conditions.
- (d) This question directly assessed management's responsibilities in the prevention and detection of fraud at **Magical Ltd.** Performance was exceptional, with nearly all candidates scoring full marks, demonstrating a clear understanding of the distinction between management's primary duty to prevent and detect fraud and the auditor's role in obtaining reasonable assurance. No corrective action is required; candidates should maintain their current level of preparation on governance and responsibility concepts.
- (e) Candidates struggled with this practical question on revenue audit procedures, with many providing vague audit objectives rather than detailed testing steps. To achieve full marks, candidates must construct actionable procedures specifying the population, source document, test objective, and direction of testing. Candidates are strongly encouraged to practice past paper procedure questions to develop this essential application skill.
- (f) Forming the audit opinion was the lowest-scoring task in the exam, revealing significant difficulty in applying practical audit judgment. Most candidates incorrectly jumped to an opinion conclusion without providing supporting workings. Higher-scoring scripts systematically

quantified the uncorrected misstatement, compared it against materiality thresholds, evaluated pervasiveness, and concluded with both the opinion type and its impact on the audit report structure. Candidates must remember that marks are awarded for the analytical reasoning process, not merely the final opinion label.

Most candidates attempted this question. However the overall performance for this section was minimal.

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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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