

EXAMINER'S REPORT**LEVEL III EXAMINATION - JULY 2023****(303) FINANCIAL CONTROLS & AUDIT**

Section A**Question No. 01**

Part (a) of the question required to state three functions of the audit committee.

Performance was at an average level. Most of the candidates understood the requirement of the question but provided irrelevant answers such as:

- Approving and correcting accounts.
- Advise the auditor in preparing financial statements.
- Express an opinion on financial statements.
- Prepare financial statements.

Part (b) required to identify two benefits the audit committee can provide to the board of **Trust PLC**.

Performance was at a poor level. Most of the candidates had given general answers such as,

- Maintain efficiency and effectiveness.
- Identify material misstatements.
- Acting as a navigator, etc.

Candidates are advised to improve their knowledge in following areas:

- The composition of the Audit Committee.
- Functions of the Audit Committee.
- Benefits of the Audit Committee.
- Problems of an Audit Committee.

Question No. 02

This question required to explain a technique that can be used for mitigating identified risks of **Glenrock (Pvt) Ltd**.

Many candidates had mentioned techniques used in mitigating risks but were unable to match with the concerns of the managing director, and therefore just mentioned following risks:

- Risk Avoidance.
- Risk Acceptance.

- Risk Transfer.
- Risk Reduction.

Candidates should identify the type of risk and respond with appropriate risk-mitigating techniques. Most of the candidates were unable to explain the techniques with valid examples.

- Eg:
- Risk Transfer – Insurance policy.
 - Risk Avoidance – Close down.
 - Risk Reduction – Diversification of operations.

Candidates are advised to improve their knowledge in following areas.

- External and internal risks of the organization.
- Risk management framework.
- Techniques used in mitigating risk.
- Risk management and information techniques.

Question No. 03

The question required to explain three key aspects and requirements applicable when accepting and managing an assurance engagement.

Performance was at an average level.

This is a straightforward question and direct answers could have been given. The study text depicted several aspects and requirements relating to accepting and managing assurance engagement.

Some candidates provided the following irrelevant answers and earned lower marks:

- Eg:
- General Audit procedures such as calling confirmation, inquires, inspections, etc.
 - Effectiveness and efficiency of operations.
 - Compliance with laws and regulations.

Question No. 04

This question required to explain two key elements of a system of quality control of a firm.

This question is also straightforward and the study text clearly explains six elements with example, the elements of system of quality control.

The performance was at an average level. Most of the candidates had identified key elements but were unable to explain those. This was due to their poor understanding of the elements.

Some candidates had provided general explanations about the element, e.g. Leadership, HRM, and Ethics. Therefore, candidates are advised to have a fair knowledge on elements of quality control in Auditing perspective.

Further candidates are advised to pay attention on following areas:

- Objectives of the system of quality control.
- Elements of a system of quality control.
- Quality control requirements applicable for an audit of financial statements.
- Acceptance and continuance of client relationship and audit engagement withdrawal.

Section B

Question No. 05

Part (a) of the question required to discuss the effect of scope limitation (Non invitation for stock verification) and disagreement with the management (Valuation of the stock at selling price).

However, very few candidates had identified the impact of misstatement and how it affects the auditor's report. Most of the candidates had not mentioned that the inventories should be valued at a lower of cost or net realizable value and this indicates candidates' poor knowledge on accounting standards.

Candidates also had no knowledge on alternative audit procedures that can be performed when auditors could not be able to attend physical stock verification.

Part (b) of the question required to state four matters that need to be considered in forming an auditor's opinion.

Performance for this part was not at a satisfactory level.

A significant number of candidates had mentioned elements of audit report rather than matters that need to be considered.

- Eg: - Title
- Address
 - Signature
 - Date

This is mainly due to poor understanding of the requirements of the question. So, candidates are advised to read the question with proper attention to the requirement of the question.

Question No. 06

Part (a) of the question was required to assess the possibility of accepting the audit of a new client.

Performance was not at a satisfactory level. Very few numbers of candidates had mentioned that before accepting a new client, an auditor should determine whether such acceptance would create any threats to compliance with the fundamental principles.

Many candidates had given general answers such as:

- The audit should not be accepted since Good Bank PLC had not provided for impairment.
- Audit should be accepted because qualification (impact) is not so pervasive.

A significant number of candidates had ignored the possibility of applying safeguards on the threats to reduce the impact to an acceptable level.

Part (b) of the question requested to explain the concept of independence.

Performance was at an average level. Many candidates had mentioned that associating too much with a client in public will create independence being questioned. However, most of the candidates were unable to explain the independence of mind and independence of appearance.

Candidates are advised to have a clear understanding on,

- Concept of Independence
- Threats to Independence
- Safeguard to Independence

Candidates should also be careful to not mislead threats to independence with threats to compliance with fundamental principles.

Question No. 07

Part (a) of the question required to identify two suppliers that need to obtain external confirmations with reasons for selection. Performance was at a satisfactory level. Considerable number of candidates had identified suppliers that need to obtain external confirmations.

Part (b) required to list three audit procedures that need to be performed in auditing of trade creditors, other than obtaining external confirmations.

Performance for this part was average at an average level. Most of the unsuccessful candidates had given the following irrelevant answers.

- Observation
 - Inspection
 - Recalculation
 - inquiries
- } These are the types of General Audit Procedures

Part (c) of the question required to explain the auditor's responsibility on subsequent events.

Performance was at an average level. Some candidates had explained management responsibility regarding the subsequent event and some others had just explained audit procedures regarding subsequent events.

Candidates are advised to have a fair knowledge on the following areas,

- Auditor's responsibility on subsequent events
- Events before the date of the auditor's report
- Events after the date of the auditor's report before the date the financial statements are issued.
- Events after the financial statements have been issued.

Section C

Question No. 08

Part (a) required to explain three signs that may indicate significant deficiencies in the internal control system of **D Fashion Pvt Ltd**.

Performance was at an average level.

Some candidates had provided general answers such as:

- Poor risk assessment.
- Inefficient design of internal control.
- Inefficient response to identified risk.

Candidates are advised to use their knowledge on internal controls to the given scenario of the question.

Part (b) required to explain three control activities that can be implemented by **D Fashion Pvt Ltd**.

Performance was at an average level.

Some irrelevant answers were provided such as,

- Quality control.
- Information and communication.
- Monitoring.
- Finance control.

Most of the candidates had just mentioned control activities without relating those to the **D Fashion Pvt Ltd**.

Part (c) required to explain two preventive controls that can be suggested to **D Fashion Pvt Ltd**.

Performance was below the average level.

Most of the candidates had not understood the requirement of the question (Preventive Controls) and had written any control relating to internal controls.

Candidates are advised to have a fair knowledge on the following areas:

- Types of internal control.
- Controls based on organization:
 - Operational
 - Financial
 - Compliance
- Control based on behavior:
 - Preventive
 - Detective
 - Corrective

Part (d) of the question required to explain two key business processes that can be identified in **D Fashion Pvt Ltd**.

Performance was at a satisfactory level. Almost all the candidates who attempted the question had mentioned business processes but the majority of them were unable to explain the processes at a satisfactory level. Therefore, candidates are advised to improve their knowledge on business processes so that they need a thorough understanding of the following:

- Key business processes.
- Steps of the processes.
- Key documents relating to each processes, etc.

Part (e) required to state two application controls with an example each that can be used to verify the accuracy of GRNs.

Performance was not at a satisfactory level.

Most of the candidates had written controls relating to IT ignoring the requirement of the question. (Application Control)

Candidates are advised to have a fair knowledge on IT controls with knowledge of differences between application and general controls, and examples.

Question No. 09

Part (a) required to identify five areas that need special attention in performing the audit procedure at YF.

Performance was at an average level.

This was an easy question to answer because the information given highlights many areas that need special attention. However, candidates have not understood the requirements of the question and the information given in the question.

Some candidates had provided the following irrelevant answers:

- Interest and inflation rate.
- Internal control.
- PEST factors.

Part (b) required to assess the statement given by the CEO mentioning that the auditor's objective should be to identify all errors and frauds in financial reporting.

Performance was very poor.

An average number of candidates had mentioned that detecting fraud and errors is the responsibility of the auditor. This indicates candidates' poor technical knowledge on the subject area.

Candidates are advised to have a fair knowledge on Sri Lanka Auditing Standards.

Part (c) of the question required to state four factors that may affect the establishment of materiality based on an appropriate benchmark.

Performance was very poor and some candidates had not attempted this part. Some irrelevant answers given are:

- Sufficiency and appropriateness of evidence.
- Auditors experience and proficiency.
- Deadline requirement.
- Resources availability.

Part (d) of the question required to identify five industry and regulatory factors the auditor needs to consider in obtaining an understanding of the entity and its environment.

Performance was not at a satisfactory level.

Most of the candidates had not proper understanding on internal and external business environments. That was the main reason for poor performance.

So, the candidates are advised to have a better understanding on,

- Industry, regulatory, and other external factors.
- Nature of the entity.
- Internal control.
- Objective, strategies, and relevant business risk.

Part (e) required to state audit procedures that can be applied in reviewing the going concern of the company.

Performance was poor, and some candidates had not attempted to answer this part.

Most candidates had provided general audit procedures such as:

- Inquiry.
- Inspection.
- Re-performance.
- External confirmation, etc.

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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.