

## EXAMINER'S REPORT

LEVEL III EXAMINATION - JULY 2025

**(303) FINANCIAL CONTROLS & AUDIT**

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Section A**Question No. 01**

This was a straightforward theoretical question. **Part (a)** required to state 3 advantages of Good Corporate Governance Principles and **part (b)** focused on the function of the Audit Committee.

Almost all the candidates attempted the question, majority scored higher marks for **part (a)** and average marks for **part (b)**. However, a few candidates misunderstood the **part (a)** and gave unnecessarily long and irrelevant answers. In **part (b)**, many candidates did not fully grasp the question and responded from the perspective of the audit and audit firm.

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

**Question No. 02**

**Part (a)** of the question required an explanation of "Relevant Ethical Requirements" as an element of a system of quality control, while **part (b)** asked two ways to develop the competence of human resources within an audit firm.

Although, most of the candidates attempted the question, the majority lost marks in **part (a)** due to misunderstanding the requirement. Some candidates have given general answers without using the correct terminology, due to the lack of reading. Those who obtained full marks have written ethical requirements such as integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

However, **part (b)** was well answered, with most candidates scoring full marks by mentioning professional education, continuous professional development, work experience, coaching, etc.

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

### Question No. 03

This question related to the given scenario and tested candidates' knowledge of factors to consider before accepting a new client or audit engagement in **part (a)** and asked for examples of assurance engagements other than audit engagements in **part (b)**.

Most of the candidates attempted **part (a)** by providing general points that demonstrated an understanding of aspects an auditor should consider before accepting an engagement. However, many responses simply restated the question or repeated concerns without further analysis or application.

Notably, some candidates stood out by directly addressing the case of Reliance **Solar Company (Pvt) Ltd.** For example, they emphasized the importance of auditor independence when engaging with **Reliance Solar (Pvt) Ltd.**, a subsidiary of **Reliance Construction (Pvt) Ltd.** and highlighted the need to comply with relevant legal and statutory requirements.

In **part (b)**, many candidates explained the differences between assurance engagements instead of giving relevant examples. However, some provided appropriate examples such as review engagements and specific agreed-upon procedures including various certifications, showing a clear understanding of assurance engagements beyond audits.

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

### Question No. 04

This was a relevant and fairly good question focusing on how social media can be an effective risk management tool in **part (a)** and on techniques used to address identified risks in **part (b)**.

Most of the candidates attempted the question, with many providing well-structured responses and demonstrating a comprehensive understanding by giving correct answer. The scenario involved an e-commerce company in a highly competitive market, requiring application of knowledge to a practical context.

Several candidates effectively included critical aspects such as real-time monitoring of customer sentiment, early identification of market trends and competitor activities, and implementation of risk mitigation strategies along with effective crisis communication.

**Part (b)** required to list techniques used to mitigate risks in an e-commerce company. However, many misunderstood this, providing general strategies or examples instead of clearly identifying distinct mitigation techniques. While most candidates explained the risk mitigation framework, the question required listing specific risk responses such as reduce, transfer, avoid, and accept risks. Only a few candidates answered successfully.

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

## **Section B**

### **Question No. 05**

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

- (a)** This part required to identify areas to include in the audit plan, which were described in the scenario.

Candidates scored an average mark from the allocated marks by identifying key issues / areas comparing current year figures with those of the prior year, including relevant ratios. However, many did not achieve full marks because they failed to apply their audit knowledge with reference to ISA 300. The majority of candidates focused mainly on the loan application related to the going concern issue as a point to the audit plan.

- (b)** This part was relatively straightforward, asking for four audit procedures need to perform in auditing of the company's inventory. Most of candidates earned a higher mark by correctly providing at least two relevant procedures. However, many candidates just listed general audit procedures like inspection, observation, inquiry, confirmation, and recalculation rather than stating specific procedures such as;

- Observe physical verification of inventory cutoff analysis.
- Check the valuation of inventory.
- Checking physical inventory balance with system balance.
- Calculate the inventory residence period.
- Check the sales invoice.

- (c)** This part was a theoretical question, what is meant by audit sampling. Although most of the candidates attempted it, many gave irrelevant or unclear explanations. Some answers reflected the candidates' understanding but were poorly articulated, while a few included unrelated points about audit opinion and independence.

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

## Question No. 06

This was also a scenario-based question focusing on two specifically identified issues. **Part (a)** asked about the impact of the give matters on the audit opinion, of the auditor's report on the financial statements while **part (b)** was a theoretical question concerning the auditor's independence as to the overall objectives of independent auditor in conducting the audit of the financial statements.

- (a)** This part focusing on the modification of the auditor's opinion in the presence of material and pervasive differences. This part proved challenging for candidates, as they struggled to fully understand the examiner's expectations and describe the consequences of scope limitation and unadjusted variations in interest (less than the materiality level).

Candidates could mention the impact of each issue individually and then discuss the overall impact on the audit opinion. Most of the candidates attempted this part. A few successfully highlighted and analyzed the significance and impact of the two key issues: the limitation in performing physical stock verification and the capitalization of interest costs on borrowings for construction projects. These responses demonstrated an understanding of how such matters could materially affect the financial statements and influence the auditor's professional judgment.

However, the majority of answers were not completed, reflecting a lack of clear understanding of the theoretical principles needed to identify issues, evaluate the issues and assess the overall impact to the opening according to the audit materiality threshold, as well as the deciding and selecting the suitable audit opinion. There were few answers just say to modified or adversed opinion without giving reasons and few just explain the facts and not recommended the opinion and few suggested issuing an adverse opinion or modifying or qualifying, based on the engagement partner's discretion.

- (b)** The majority of candidates attempted this question, but average number of candidates correctly identified that the primary objective of an audit is to express an independent professional opinion on whether the financial statements present a true and fair view in all material respects.

Many responses failed to explicitly state that the audit should be conducted in accordance with Sri Lankan Auditing Standards and candidates described audit objectives such as detecting fraud and error and achieving reasonable assurance.

Overall, most candidates scored between 5 and 7 marks by providing reasonably good answers.

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

### Question No. 07

Auditors routinely interact with top management to communicate findings and deliver key deliverables. Management typically responds positively to audit services and recommendations for system improvements. However, developing informal relationships with management to secure personal benefits compromises the auditor's professional integrity, damages their public reputation, and constitutes a violation of professional codes of ethics.

- (a) This section required candidates to identify specific threats to compliance with fundamental principles of ethical based on the given case scenario. The majority of candidates did not attempt this question. Among those who did respond, the a number of candidates provided adequate answers by either properly explaining the threats or at least presenting relevant facts from the case. Common inadequate responses included generic suggestions such as "reject the audit engagement" or "replace partner Kumara," along with threats unrelated to the case scenario, indicating poor comprehension of the question requirements.
- (b) This section was directly linked to **part (a)** and asked candidates to propose safeguards to eliminate or reduce the threats identified in the previous section. Candidates who correctly answered **part (a)** generally performed well in **part (b)**. However, some candidates provided only two safeguarding measures instead of four scored the half marks allocated.

The question's overall performance was moderate, primarily attributed to difficulties in **part (a)** and the interconnected nature of **parts (a)** and **(b)**, where poor performance in the first section directly impacted performance in the second section.

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

## Section C

### Question No. 08

This is a 25 mark question consisting of five parts, assessing candidates' understanding of Business processes and internal controls in a manufacturing environment. It requires the application of theoretical knowledge and the evaluation of issues identified in the given scenario.

- (a) Required to explain two components of the COSO internal control system. Most candidates attempted the question and correctly identified the components of the COSO internal control system. Some of the candidates used slightly different technical wording in Sinhala. Most candidates scored full marks.

- (b)** Required to identify four internal control weaknesses in the existing system of LGPL with recommendations to overcome the identified weaknesses. 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 weaknesses. However, a few candidates mistakenly repeated their **Part (a)** responses due to a misunderstanding.
- (c)** Required to explain why LGPL can't have completely error-free controls within the organization. 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)** Required to state three objectives of the payroll process. Most of the candidates attempted this part and provided correct answers, as it was a straightforward general question.
- (e)** Required to state three IT application controls with examples. This was a well-structured question to assess candidates' knowledge of IT application controls with examples. Most candidates attempted it and scored marks by providing examples, although they demonstrated limited knowledge of IT controls.

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

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

## **Question No. 09**

This is a scenario based 25 mark question consisting of 5 parts, testing various aspects of knowledge within the process of external auditing with special reference to the hospital industry. Although this question is designed to assess the application of theoretical knowledge and the planning and performing of audits, **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 areas that need special attention in performing the audit process at **WHPL**.
- (b)** This addresses the matters to be included in the overall audit strategy of **WHPL**.
- (c)** This covers areas where the auditor shall obtain an understanding of **WHPL** and its environment.
- (d)** This addresses items to be included in the working papers of **WHPL**.
- (e)** This explains the types of audit procedures to be carried out in the audit of **WHPL**, with examples for inspection and analytical procedures.

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

- (a)** Most candidates attempted to answer the question and provided good answers from the given scenario and accordingly scored full marks. However, some candidates failed to identify areas that need special attention in performing the audit process at **WHPL**, although all the points were given through the scenario. Some candidates have focused on operational aspects rather than the audit perspective.

Many answers merely listed areas without analyzing them in relation to the scenario. Some responses highlighted operational areas but did not connect them to the given context these should not be awarded marks.

- (b)** A reasonable number of candidates effectively explained the matters to be included in the overall audit strategy of **WHPL** and scored good marks, while most candidates did not answer well for this part due to poor knowledge or misunderstanding of the questions. However, some confused the audit plan with other components of the overall audit process, focusing incorrectly on tasks such as calling confirmations, communicating with management, calculating materiality levels, and evaluating audit risk.
- (c)** Although this part was relatively easy and scores were generally good, most candidates failed to earn full marks due to poor understanding of the question. The majority focused on internal and external environment factors such as legal, political, and technological issues, as well as irrelevant topics like HR policies, inventory control, and organizational structure.
- (d)** Candidates showed confusion between audit working papers and hospital working papers, listing items like names, in/out times, and OT rates. Some provided simple, general answers based on basic knowledge. This part clearly reflected candidates' practical firm experience, with only a few correctly referencing the details as presented in the study text.
- (e)** This part required candidates to explain specific audit procedures, Inspection and Analytical procedures with two examples. As there is a relationship with Part (d) working papers, matter, only a few candidates provided correct explanations with appropriate examples. Many had no clear understanding and gave no explanation, while some merely mentioned "stock inspection" without confidence or detail. A few showed some awareness of audit procedures but failed to elaborate or provide examples.

Majority of candidates attempted the question but scored less than 15 marks due to poor knowledge of case studies and failure to link the facts to the given scenario.

Overall, performance in this section was average, reflecting the need for better understanding and application of case study information in auditing contexts.

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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.