

THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA
FINAL EXAMINATION – JANUARY 2012

(61) AUDITING

22-01-2012
Afternoon
[2.00 - 5.00]

Time: 03 hours

• Instructions to candidates:

No. of Pages : 04
No. of Questions : 06

- (1) *All questions should be answered.*
- (2) *Answers should be in one language, in the medium applied for, in the booklets provided.*
- (3) *Use of calculators is permitted.*
- (4) *Submit all workings and calculations. State clearly assumptions made by you, if any.*
- (5) *100 Marks.*

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01. (a) What is the primary objective of an “Audit”? (02 marks)
- (b) State and briefly explain four(04) fundamental principles laid down in the Code of Professional Conduct & Ethics for Members of AAT(SL). (04 marks)
- (c) “An auditor does not provide an absolute assurance on the financial statements audited by him”. State four(04) reasons why an auditor cannot provide an absolute assurance on the financial statements audited by him. (04 marks)
- (d) State and briefly explain four(04) activities carried out by an internal auditor. (04 marks)
- (e) State two(02) powers of the Sri Lanka Accounting and Auditing Standard Monitoring Board. (04 marks)
- (Total 18 marks)
02. (a) Briefly explain why application controls should be established in a computerized information system. (02 marks)
- (b) State three(03) types of application controls with an example for each of the controls that can be established in a computerized information system. (03 marks)
- (c) Briefly explain what do you understand by the following:
- (i) Control Risk.
 - (ii) Detection Risk. (04 marks)

(d) **Sigma Ltd.** imports and sells air conditioners and its office is located in Ratmalana. Air conditioners are sold on credit terms as well as for cash. Customers place their orders with the store keeper who raises an invoice and accepts cash / cheques from customers. The security officer checks whether details on the invoice match with goods issued to the customer. Customers, who had purchased air conditioners on credit terms, are expected to handover cash / cheques to the Assistant Accountant within the credit period. At the end of the day the Assistant Accountant collects invoices, monies received and prepares a summary of sales and deposits cash received in the bank on the next working day. The Assistant Accountant updates the cash book and prepares bank reconciliations.

(i) Identify three(03) important weaknesses in the internal control system detailed above. (03 marks)

(ii) Explain how you would overcome these weaknesses and strengthen the Internal Control System. (06 marks)

(Total 18 marks)

03. (a) State and briefly explain four(04) audit procedures an auditor can perform to obtain audit evidence. (04 marks)

(b) List four(04) objectives of the quality control policies adopted by an audit firm of Chartered Accountants. (04 marks)

(c) You are a member of the audit team and audit the financial statements of **Tharu PLC** for the year ended 31st March 2011. You have been requested to verify Property, Plant and Equipment. During your review, you have noted that a building owned by the company has been revalued during the financial year 2010/11 and revaluation surplus of Rs.100 million has been recorded in the books of accounts of the company.

You are required to, state four(04) factors you would consider in determining the completeness and accuracy of records in the building revaluation. (04 marks)

(d) You are a member of the audit team auditing the financial statements of **Ranmuthu (Pvt) Ltd.** Your senior has assigned you to perform the verification of trade payables.

You are required to, list five(05) important audit procedures you would perform to verify the trade payables outstanding as at 31st March 2011. (05 marks)

(Total 17 marks)

- 04.** (a) Give an audit procedure you should perform in verification of salaries and wages to obtain audit evidence for each of the following assertions:
- (i) Occurrence.
 - (ii) Completeness.
 - (iii) Accuracy.
 - (iv) Cut off. (04 marks)

- (b) The following information were extracted from the books of accounts of **XYZ Ltd.** as at 31st March 2011.

	Rs. (million)
Bank Loan	20
Fixed Deposits	5
Provision for contingent liabilities	6

You are required to, give two(02) substantive tests / procedures to verify each of the above balances by an auditor. (06 marks)

- (c) “The Auditor should obtain written representation from management on matters material to the financial statements, when other sufficient appropriate audit evidence cannot reasonably be expected to exist.”

You are required to, list four(04) matters that are generally included in a management representation letter by the management of an entity. (04 marks)
(Total 14 marks)

- 05.** (a) State four(04) audit procedures the auditor would perform to obtain a general understanding on the nature of the business and internal control systems applicable to an audit client. (04 marks)
- (b) Briefly explain the circumstances in which an auditor may express a qualified opinion. (04 marks)

- (c) You are a member of the audit team appointed to observe the physical verification of stocks of **Superlight (Pvt) Ltd.** for the year ended 31st March 2011. The following observations have been made by you and recorded in the working papers.

Item	Unit of Measurement	Balance as per Stock Ledger	Physical balance	Excess (shortage)	Comments
Superlight soap 100 g	Cases	1,100	1,100	-	This item has been identified as a non moving item and not been sold since 2008.
Superlight soap 200 g	Cases	500	600	100	-
Superwight toothpaste 100 g	Cases	500	600	100	The expiry date for toothpaste in 100 cases had lapsed and were kept separate from other stocks.
Superwight toothpaste 200 g	Cases	850	850	-	-
Superwight Baby cream 150 g	Cases	500	100	(400)	-

You are required to, identify four(04) audit issues apparent from the above data giving reasons why special attention should be given in the audit.

(06 marks)

(Total 14 marks)

06. (a) Briefly explain how the appointment of the **first** auditor of a company should take place as per Companies Act No. 07 of 2007. (03 marks)
- (b) Name three(03) persons who cannot be appointed as an auditor of a company as per Section 157(3) of the Companies Act. (03 marks)
- (c) State three(03) matters the auditor should include in the Auditor's Report to shareholders, as per Section 163 of the Companies Act No.07 of 2007. (03 marks)
- (d) List three(03) rights or powers of an auditor of a Limited Liability Company. (03 marks)
- (e) List three(03) duties / functions of the Auditor General under the Constitution of 1978. (03 marks)
- (f) (i) What do you understand by the Committee on Public Enterprises (COPE)?
(ii) Briefly explain two(02) functions of COPE. (04 marks)
- (Total 19 marks)