01. (a) (i) State two (02) secondary objectives of an Audit. 
(ii) State four (04) Ethical Principles that should be followed by members of the Association of Accounting Technicians of Sri Lanka when conducting their work. 

(b) “Auditor is responsible for preparation and presentation of financial statements”
Do you agree with the above statement? Justify your answer. 

(c) “Detection risk is the risk that an auditor’s substantive procedures will not detect a misstatement that exists in an account balance, or class of transaction that could be material, individually or when aggregated with misstatements in other balances or classes”
State four (04) reasons why detection risk cannot be eliminated completely. 

(d) State two (02) requirements Specified Business Enterprises (SBEs) should comply with as per the Sri Lanka Accounting & Auditing Standards Act No.15 of 1995. 

(e) State four (04) important factors to be considered in determining audit materiality. 

(Total 19 marks)

02. (a) State three (03) factors that should be considered in developing the overall audit strategy. 

(b) State four (04) benefits of having a properly developed “Overall Audit Strategy”. 

(Total 19 marks)
(c) You are a member of the team auditing the financial statements of Cellco (Pvt) Ltd. for the year ended 31st March 2012. The company operates several outlets islandwide that sell cellular phones and accessories. Additionally, the company also distributes the cellular phones to other retailers as well. Introduction of cellular phones with new technology during the financial year 2011/12 has caused the company to purchase new phones as majority of the customers want to purchase cellular phones with the new technology. The cellular phones with the older technology are being offered to customers for sale with significant discounts.

Based on the above information, identify two(02) areas that require special attention during the audit. You have to justify why these areas require special attention. (04 marks)

(d) Briefly explain the responsibility of the management of a business organization in respect of prevention and detection of frauds. (04 marks)

(Total 15 marks)

03. (a) List four(04) principal contents of an Audit Engagement Letter. (04 marks)

(b) State three(03) reasons why it is important to implement quality control procedures in an audit firm. (03 marks)

(c) You are the senior in charge of the external audit team auditing the financial statements of XYZ (Pvt) Ltd. The partner in charge of the audit informs you that there is a strong internal audit performed on XYZ (Pvt) Ltd. and the external audit team should evaluate and test whether the work performed by the internal auditor can be used in the external audit or not.

List three(03) areas that can be considered in performing this evaluation. (03 marks)

(d) Briefly explain the actions that auditor would take if management refuses to provide a written representation required by the auditor from management. (04 marks)

(Total 14 marks)

04. (a) You are a member of the team auditing the financial statements of Uthura (Pvt) Ltd. for the year ended 31st March 2012.

(i) Uthura (Pvt) Ltd. has purchased Property, Plant and Equipment amounting to Rs.40 million during the period under review.

List four(04) substantive procedures you should perform when auditing the Property, Plant and Equipment purchased during the year.

(ii) List four(04) test of controls that could be performed in respect of cash sales. (08 marks)
(b) **Sagara (Pvt) Ltd.** operates a hotel in Negombo. You have been assigned to audit the Trade Payables and Accrued Expenses balance of Rs.717,100/- shown in the Statement of Financial Position (balance sheet) of **Sagara (Pvt) Ltd.** as at 31st March 2012.

You have been given the following list of Trade Payables and Accrued Expenses:

<table>
<thead>
<tr>
<th>Trade Payables and Accrued Expenses</th>
<th>Balance as at 31st March 2012 (Rs.)</th>
<th>Balance as at 31st March 2011 (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lucky Traders</td>
<td>270,000</td>
<td>230,000</td>
</tr>
<tr>
<td>Employees’ Provident Fund and Employees’ Trust Fund</td>
<td>62,100</td>
<td>55,200</td>
</tr>
<tr>
<td>European Spirits (Pvt) Ltd.</td>
<td>215,000</td>
<td>190,000</td>
</tr>
<tr>
<td>Sunil Fish Traders</td>
<td>50,000</td>
<td>160,000</td>
</tr>
<tr>
<td>Jay Security Services</td>
<td></td>
<td>35,000</td>
</tr>
<tr>
<td>Sundry</td>
<td>180,000</td>
<td>80,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>777,100</strong></td>
<td><strong>750,200</strong></td>
</tr>
</tbody>
</table>

The following payments have been shown in the April 2012 cash book:

<table>
<thead>
<tr>
<th>Date</th>
<th>Payment Voucher No.</th>
<th>Payee</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.04.2012</td>
<td>0001</td>
<td>Salaries March 2012</td>
<td>248,400</td>
</tr>
<tr>
<td>04.04.2012</td>
<td>0002</td>
<td>European Spirits (Pvt) Ltd.</td>
<td>215,000</td>
</tr>
<tr>
<td>06.04.2012</td>
<td>0003</td>
<td>Sunil Fish Traders</td>
<td>150,000</td>
</tr>
<tr>
<td>06.04.2012</td>
<td>0004</td>
<td>Lucky Traders</td>
<td>270,000</td>
</tr>
</tbody>
</table>

You are required to, identify four(04) audit issues apparent from the above data, giving reasons why special attention should be given for each of those areas during the audit. (08 marks) (Total 16 marks)

05. (a) State two(02) objectives of introducing each of the following controls in a Computerized Information System (CIS) environment:

(i) Input controls. (04 marks)

(ii) Output controls. (04 marks)

(b) (i) State two(02) financial events or conditions that may cast a significant doubt about the ability of a business to continue as a going concern. (02 marks)

(ii) You are the senior in charge of the team auditing the financial statements of **TExports (Pvt) Ltd.**, a tea exporter. All the customers of the company are in Syria and because of the civil unrest in Syria, the company has not been able to export any tea during the last 6 months. The company has defaulted on its loan installments and has not paid salaries of the employees for the last 3 months. The audit manager indicates that these factors may cast a significant doubt on the company’s ability to continue as a going concern.

State two(02) audit procedures that you should perform to evaluate the appropriateness of the going concern assumption used for **TExports (Pvt) Ltd.** (04 marks)
(c) **Vasana (Pvt) Ltd.** manufactures shoes. The employees in the shoe factory clock their attendance using time cards. The time keeper collects these cards and delivers them to the Assistant Accountant on a weekly basis to process the weekly payroll. The information in the payroll is checked against the time cards by the Assistant Accountant and the equivalent cash amount is given to the time keeper to pay the employees’ salaries on weekly basis. The time keeper obtains acknowledgement of the cash handed over to employees on a separate sheet and hands over the uncollected cash to the Assistant Accountant. Employees’ personal files are maintained by the human resources division.

(i) List four (04) weaknesses in the internal control system explained above.  
   (04 marks)

(ii) Explain how you would overcome each of these weaknesses and strengthen the internal control system.  
    (Total 06 marks)

06. (a) As per the provisions of the Companies Act No. 07 of 2007, state two (02) persons who would not be appointed as an auditor of a company.  
    (02 marks)

(b) State three (03) instances where the Office of the Auditor General shall become vacant as per the 1978 Constitution of Sri Lanka.  
    (03 marks)

(c) List four (04) important documents that should be retained in a permanent audit file.  
    (04 marks)

(d) State three (03) important matters / information that the auditor should document in his audit working papers.  
    (03 marks)

(e) (i) State two (02) circumstances where an auditor may not be able to express an unqualified audit opinion.  
    (02 marks)

(ii) Briefly explain the circumstances where an auditor would express an adverse opinion.  
    (02 marks)

(Total 16 marks)