

**Instructions to candidates:**

No. of pages : Three (03)  
No. of questions : Five (05) Essay  
Time : Two (02) hours  
Marks allocated : 100 Marks

Index No:

**Answer only four (04) questions.**

01.

i) Describe what an audit is.

(05 Marks)

ii) Is there any statutory duty on the part of the auditors to detect fraud and errors?

Support your answer giving reference to a relevant case law.

(05 Marks)

iii) Briefly describe the general principles governing an audit of financial statements.

(10 Marks)

iv) An auditor cannot obtain absolute assurance because there are inherent limitations in an audit that affect the auditor's ability to detect material misstatements. Identify the factors which give results to such inherent limitations.

(05 Marks)

(Total – 25 Marks)

02.

i) A professional accountant should identify, evaluate and address threats to compliance with the fundamental principles of professional ethics. Briefly describe five (05) categories of threats to compliance with such fundamental principles.

(10 Marks)

ii) List the financial statement assertions which need to be considered in the context of audit evidence.



iii) You are an audit senior in the AMG Associates, (Chartered Accountants) working on the audit of Haritha PLC. You have been instructed by the audit manager to conduct a review of the board minutes of the client. The audit junior who is working to you in this audit has query on the necessity of such a review. He has no understanding on why you have to review the board minutes as he thought that you obtained all the evidences from the tests that you performed, and surely the board minutes might not be independent any way.

You are required to explain the significance of such a review to your junior.

(10 Marks)

(Total – 25 Marks)

03.

i) What is meant by audit planning?

(05 Marks)

ii) List the advantages of adequate planning in a financial statement audit.

(05 Marks)

iii) State the activities that an auditor must perform at the beginning of the current audit engagement.

(05 Marks)

iv) What is meant by an overall audit strategy?

(04 Marks)

v) List the factors to be considered by the auditor in establishing overall audit strategy.

(06 Marks)

(Total – 25 Marks)

04.

i) What are the main factors to be considered by the auditor in Asset Verification?

(05 Marks)

ii) Distinguish Vouching from Verification

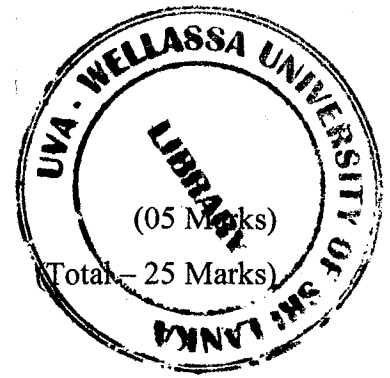
(04 Marks)

iii) Briefly describe the responsibility of the management and the auditor on Frauds and Errors

(06 Marks)

iv) What are the factors to be considered on opening balances by an auditor in an initial engagement?

(05 Marks)



v) List the principle contents of Audit Engagement Letter

05.

i) List the basic elements of the Auditor's Report.

(05 Marks)

ii) The opinion paragraph of the auditor's report states the auditor's opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework used. Name the different types of audit opinions which may be given by an auditor.

(05 Marks)

iii) What conditions should be satisfied to enable an auditor to express an unqualified audit opinion?

(06 Marks)

iv) The following paragraph was extracted from the independent auditor's report published in the Annual report of ABC PLC.

In our opinion, so far as appears from our examination, the ABC PLC maintained proper accounting records for the year ended March 31, 2014 and the financial statements give a true and fair view of the Company's state of affairs as at March 31, 2014 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Without qualifying our opinion we draw attention to Note XI to the financial statements. The Company is the defendant in a lawsuit alleging infringement of certain patent rights and claiming royalties and punitive damages. The Company has filed a counter action, and preliminary hearings and discovery proceedings on both actions are in progress. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

a. State the type of opinion given to ABC PLC.

(04 Marks)

b. Based on what information you provided the answer to part (a.)?

(05 Marks)

(Total - 25 Marks)