

Association of Accounting Technicians of Sri Lanka

Financial Controls & Audit (FCA)

Model Paper

Section A

Question 01

ABC (Pvt) Ltd. appointed SkyMax Associates, a firm of Chartered Accountants, as their statutory auditors. The auditor is responsible for the audit of financial statements and expressing an opinion as to the true and fair view of the financial statements.

- a) Identify the three(03) parties involved in an Assurance Engagement. **(03 marks)**
- b) State two(02) fundamental principles in the Code of Ethics SkyMax Associates should demonstrate as the auditor of ABC (Pvt) Ltd. – **(02 marks)**

Question 02

XYZ (Pvt) Ltd. is engaged in the business of selling mobile phones. The business is affected by both internal and external risks and the company cannot completely avoid the risks.

- a) State three(03) internal risks that may be affect XYZ (Pvt) Ltd. **(03 marks)**
- b) List two(02) types of techniques that may be used to mitigate the risks of XYZ (Pvt) Ltd – **(2 marks)**

Question 03

Direction, supervision and review are the policies and procedures that need to be considered for quality control on an individual audit. The engagement partner is ultimately responsible for quality control on an individual audit.

- a) State three (03) matters which audit partner should communicate to the members of the audit team under the direction. **(03 marks)**
- b) State two(02) functions included under the supervision when conducting an audit. **(02 marks)**

Question 04

Kamal is an audit manager of ABC Associates a firm of Chartered Accountants. He explains Namal, the senior in charge for the audit of Sunimal (Pvt) Ltd. that the auditor's report of this company cannot be finalized without getting the management representation and the receivable confirmations from debtors.

- a) State two(02) instances in which management representations are necessary. **(02 marks)**
- b) Saman, an audit junior has informed Kamal that only 3 responses have been received, out of the 35 receivable balance confirmations called. Explain the instructions to be given to Saman in this regard by Kamal – **(3 marks)**

SECTION B

Question 05

You are a senior in charge of the audit of Nalin Associates, a firm of Chartered Accountants, which conducts the audit of financial statements of Malsara (Pvt) Ltd. for the year ended 31st December 2024. The following information was included in audit file:

- ❖ Audit materiality used at the planning stage was Rs.1,700,000/- based on profit
- ❖ The Company completed the construction of an office building on 01st October 2024 and it was available for use on that date. The cost of the construction of the building was Rs.120 million
- ❖ Buildings are depreciated over 30 years on straight line basis at cost
- ❖ This new office building was opened on 01st January 2025 and depreciation was charged from that date by the company.
- ❖ The Company has capitalized the borrowing cost of Rs. 1.5 million from 01st October 2024 to 31st December 2024 on this new building.

Required

Assess the above matters on the audit opinion of Malsara (Pvt) Ltd financial statements for the year ended 31st December 2024. **(5 Marks)**

Recognize the type of audit opinion to be expressed if the auditor is unable to obtain sufficient and appropriate audit evidence. **(5 Marks)**

Question 06

- A) ABC PLC is a quoted public company operated in the Export Industry and the Company exports its products to the different customers who located in Europe. As per the latest available Bill of Lading (BOL), the Company handed over the goods to the shipping Company after the current financial year and the Company recognized the revenue based on the Export Invoice, which has been raised during the financial year. As per the signed Import and Export Agreement, the risk and rewards of the goods will be transferred to the customer upon ABC handing over the goods to the shipping company to exports. However, when you highlighted this point to the Finance Manager of ABC PLC, he has handed over a letter to you, signed by the Clearing Agent of ABC Company, stating that the goods were handed over to the shipping company during the financial year.

You are the auditor of ABC PLC and critically evaluate the above scenario **(5 marks)**

- B) Sufficient and Appropriateness are interrelated, and it is applicable to Audit Evidences obtained through, Risk Assessment Procedures, Test of Controls and Substantive Procedures. Sufficient is applicable to quantity of the audit evidence obtained and Appropriateness is applicable to Relevance, Quality and Reliability of the Audit Evidence obtained.

When conducting the Audits, the Auditor should obtain Sufficient and Appropriate Audit Evidences from various sources covering each and every applicable assertion. In practical, Auditor may obtain different Audit Evidences, from various sources to cover the same assertion.

Some sources are within the direct control of the Auditor and some are don't. Therefore, when considering the Reliability and the Quality of the audit evidences, auditor has to look different aspects based on the sources of the audit evidence obtained.

While considering the Reliability and the Quality of the Audit Evidences obtained from various sources and while giving the examples, you are required to critically evaluate the above mentioned scenario. **(5 marks)**

Question 07

Stylish Dress (Pvt) Ltd. (SDPL) sells locally manufactured apparels and apparels imported from Thailand in its 5 sales outlets. Purchases are made centrally. The ordered goods are directly delivered to the outlets. Each outlet has its own stock ledger. Purchase requirement is identified based on the sales forecast of each outlet and the stock level of each outlet.

In November 2023, the Purchasing Manager has placed an order from a new supplier identified by the General Manager. However, the shipment had not arrived up to 05th January 2024 and as a result SDPL could not achieve the sales target for the month of December 2023.

A complaint has been made regarding a shortage of ladies' blouses as even a single order had not been delivered for a period of one month. It was noted that the order placed by Nugegoda outlet had been delivered to the Dehiwala outlet instead of delivering it to the Nugegoda outlet. This has resulted in excess stocks in the Dehiwala outlet.

The finance department of SDPL compares the Goods Received Notes (GRNs) with the suppliers' invoices before making payments to suppliers. Every month, supplier statements are reconciled with SDPL's records.

You are required to:

- State three(03) inherent limitations of internal controls. **(03 marks)**
- Identify a preventive control and a detective control operating in SDPL. **(02 marks)**
- Identify two(02) internal control weaknesses in the internal control system detailed above. **(02 marks)**
- Explain how the management of SDPL would overcome each of those weaknesses identified in (c) above. **(03 marks)**

SECTION C

Question 08

- A) You have been assigned as the senior in charge of the audit of ABC (Pvt) Ltd, a company with 3 subsidiaries which is engaged in manufacturing and selling of dairy products. ABC (Pvt) Ltd is a new audit client for your firm.

Accountant of the company has been recruited 2 months before the year end. Current accountant is the third person recruited to the post of accountant during the year. Further, he is not a professionally qualified person.

Marketing Manager has stated that a new competitor called XYZ (Pvt) Limited has emerged in the industry. XYZ has made a large investment in advertising and promotions and captured a significant market share. Therefore the demand for the products of ABC is declining drastically

When the related party transactions were validated, you have identified that significant amount of inter-company sales have been made closer to the year end. Direct confirmations have been received from the relevant related parties and those agree with the ledger balance.

When reviewing the payments, you have found that several significant amounts have been paid to a lawyer. However, supporting documents are available for those payments.

There is an Accounts Executive in the Accounts Department. He is responsible for collecting milk from farmers in the area and making payments to those farmers.

Required

Explain four areas that indicate significant risk to be addressed when performing the audit of ABC (Pvt) Limited – (10 Marks)

- B) You are the Audit Manager of Sky Max Accounting Associates and ABC (Pvt) Limited is one of your clients where you are supposed to perform the Annual Audit for 2024/25 Financial Year. The Draft Financial Statements for 2024/25 Financial Year provided to you with the previous year Audited Financial Statements

Income Statement for the period ended 31st March 2025		
	2024/25 (Un-Audited)	2023/24 (Audited)
Sales		
Cash Sales	14,630,000	17,400,000
Credit Sales	45,370,000	30,600,000
	60,000,000	48,000,000
Opening Stock	3,800,000	4,200,000
Purchase during the period	49,400,000	38,000,000
	53,200,000	42,200,000
Closing Stocks	(5,200,000)	(3,800,000)
Cost of Sales	48,000,000	38,400,000
Gross Profit	12,000,000	9,600,000
Administration Expenses	(1,100,000)	(1,200,000)
Depreciations	(1,000,000)	(800,000)
Sales and Distribution Expenses	(5,200,000)	(1,200,000)
Finance Expenses	(700,000)	(400,000)
Profit Before Tax	4,000,000	6,000,000

Statement of Financial Position as at 31st March 2025		
	31.03.2025	31.03.2024
Property, Plant and Equipments	15,000,000	16,000,000
Current Assets		
Inventory	5,200,000	3,800,000
Trade Debtors	15,200,000	3,100,000
Bank Balance	2,700,000	5,400,000
	100,000	700,000
Total Current Assets	23,200,000	13,000,000
TOTAL ASSETS	38,200,000	29,000,000
Equity and Reserves		
Stated Capital & Reserves	30,000,000	22,000,000
Non Current Liabilities		
Bank Loans	4,000,000	4,000,000
Current Liabilities		
Trade Payables	3,800,000	3,000,000
Bank OD	400,000	-
Total Current Liabilities	8,200,000	7,000,000
TOTAL EQUITY AND LIABILITIES	38,200,000	29,000,000

Based on the discussion which you had with the Finance Manager at the initial meeting, the following information gathered.

- A) In 2024/25 Financial Year, the Company take an 8% reduction from the Selling Price as discount
- B) In 2023/24 financial year, the company granted a Credit Limit of 2 weeks for Debtors, and it has been increased to 4 weeks in 2024/25 financial year.
- C) Purchase Price remain stable in both years without having a change
- D) As a result of the discount provided, the Closing Inventory as at 31st March 2024, assumed to be equal to three weeks purchases
- E) The Company has not paid any Sales Commission in both years.

Required:

Based on the above facts, while using Analytical Review Procedures, you are supposed to identify 05 areas where the Auditors attention needs to be devoted to. – **(15 Marks)**

Question 09

- A) As an audit senior at Skymax Accounting Associates (Chartered Accountants), you are preparing for the audit of Viskam PLC for the year ending 31 March 2025. The company, a toy manufacturer, has already had a planning meeting with the finance director on 15 March 2025, led by your audit manager. The projected revenue for the year is Rs 16,000 million, with a forecasted profit before tax of Rs 950 million.

He has provided you with the following notes of the meeting:

Audit Planning meeting notes

Inventory is valued at the lower of cost and net realizable value. The cost includes the purchase price of raw materials as well as conversion costs, such as labor, production, and general overheads. The inventory is stored in three warehouses across the country. The company intends to carry out full inventory counts at these locations on 2, 3, and 4 April, with any required adjustments made to account for inventory movements after the year-end. The internal audit team will be present to observe the counts.

During the year, Viskam paid Rs 150 million to acquire a patent, granting the company exclusive rights for 4 years to customize toys, providing a competitive advantage in the industry. Additionally, Rs 210 million has been expensed in the current year's statement of profit or loss.

In November 2024, a significant fraud was uncovered involving three members of the sales ledger department who had colluded. They embezzled funds from wholesale customer receipts and, to conceal the theft, reallocated subsequent customer receipts to older receivables. The employees were reported to the police and subsequently dismissed. Due to vacancies in the sales ledger department, Viskam decided to outsource the entire sales ledger process to an external service organization. This organization now manages all aspects of the sales ledger cycle, including sales invoicing and follow-up on receivables, and provides Viskam with monthly reports detailing sales and receivable balances. Viskam operated its own sales ledger until 31 January 2025, after which the records were transferred to the service organization.

In December 2024, Viskam's Financial Controller was dismissed after nine years of employment. He has threatened to sue the company for unfair dismissal. In the interim, until a replacement starts in April 2025, the Financial Controller's duties have been reassigned to other members of the finance team. However, during this period, supplier statement reconciliations and purchase ledger control account reconciliations have not been carried out.

In January 2024, Viskam wrote off a receivable balance of Rs 300 million, deeming it irrecoverable after the customer declared bankruptcy. In December 2024, the liquidators managing the bankruptcy announced that most creditors were likely to receive a payout of 40% of the outstanding balance. As a result, Viskam has recognized a current asset of Rs 120 million in the statement of financial position and recorded it as other income in the statement of profit or loss.

Required

Describe Five (05) audit risks and explain the auditor's response to each risk in planning the audit of Viskam. **(15 marks)**

- B) Financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Therefore, the going concern review is a very important part of the audit.

Required

State three(05) Financial indicators that may cast significant doubt about the going concern assumption of an entity

- C) Wickramasinghe (Pvt) Ltd. is considering the change of the existing auditor (MNO Associates) due to delay in delivering the audit report for the last financial year, and Managing Director of Wickramasinghe (Pvt) Ltd. is discussing with Thushara Associates to be appointed as the statutory auditor of the company for auditing the financial statements for the year ended 31st March 2025.

Required:

Explain two(02) procedures that Wickramasinghe (Pvt) Ltd. should follow when replacing the existing auditor (MNO Associates). – **(2.5 marks)**

Explain two(02) procedures that Thushara Associates should perform after accepting the appointment as the Statutory Auditor. – **(2.5 marks)**