

**Executive Level**  
**Processes, Assurance & Ethics**  
**(Pilot Paper)**

**Instructions to candidates**

- (1) Time allowed: Reading and planning – 20 minutes  
Writing – 3 hours
- (2) Section 1(a): 10 multiple choice questions (MCQs) – **all questions are compulsory**  
Section 1(b): 10 sub-questions – **all questions are compulsory**  
Section 2: 4 questions – **answer any 3 questions**  
Section 3: 1 question - **compulsory**
- (3) Answers to Section 1(a) should be in the special paper given to you. The most suitable answer (A, B, C or D) should be entered in the paper against the relevant question number.  
  
Answers to questions in all other sections should be in the answer booklet given to you.
- (4) Begin each answer in Section 2 and Section 3 on a separate page in the answer booklet.
- (5) All answers should be in **one language** and in the **medium applied for**.

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## SECTION 1

*All questions are compulsory.*

*Total marks for Section 1 is 50 marks.*

*Recommended time for the section is 90 minutes.*

### Question 01

**1(a):** You are required to choose the most appropriate answer.

(Total 20 marks)

1.1. A "payment voucher" is originated at the point of,

- A. Accepting goods to the warehouse
- B. Accepting cash / cheques from customers by the cashier
- C. Placing orders to procure goods
- D. Settling dues by cash / cheque by an entity

**(2 marks)**

1.2. If the internal control system of an entity is operating effectively:

- A. All policies and procedures introduced by the management would be adhered to by the staff.
- B. Staff would adhere to policies and procedures introduced by the management when it is convenient to follow them.
- C. Policies and procedures introduced by the management would be followed in the presence of internal auditors.
- D. There cannot be any instances for any member of staff to commit fraud and errors.

**(2 marks)**

1.3. "Tests of control are performed, only on those controls that the auditor has determined are suitably designed to prevent or detect and correct a material misstatement of an assertion."

Which one of the following is not a test of control?

- A. Inquiry of appropriate client personnel.
- B. Inspections of documents and reports indicating the performance of policies and procedures.
- C. Performing analytical procedures.
- D. Observation of the application of the policies and procedures.

**(2 marks)**

1.4. Saman has been asked to prepare a presentation for the directors of his company on good governance.

Which one of the following areas should not be included in his presentation?

- A. Risk management
- B. Internal controls
- C. Maximising shareholder wealth
- D. Accountability to stakeholders

**(2 marks)**

1.5. Which one of the following indicates a presence of a personnel risk of fraud?

- A. Segregation of duties
- B. High staff morale
- C. Staff not taking their full holiday entitlement
- D. Consultative management style

**(2 marks)**

1.6. Which one of the following payment modes carries a higher risk in the importation of goods?

- A. Open account
- B. Letter of Credit (LC)
- C. Telegraphic transfer
- D. Bill of exchange

**(2 marks)**

1.7. An auditor has received a letter from a bank requesting financial information about one of its clients who has applied for a loan. The bank has requested this information as soon as possible, by fax or e-mail.

Which of the following ethical principles, identified in the Code of Ethics, is raised by the decision of the auditor in responding to this request?

- A. Objectivity
- B. Confidentiality
- C. Professional competence
- D. Integrity

**(2 marks)**

1.8. Which of the following factors would most likely be considered as an inherent limitation to an entity's internal controls?

- A. The complexity of the information processing system.
- B. The ineffectiveness of the board of directors.
- C. Human judgment in the decision making process.
- D. The lack of management incentive to improve the control environment.

**(2 marks)**

1.9. The accountant of an entity has detected that fictitious purchases have been recorded by the purchasing clerk.

This indicates the absence of which of the following controls?

- A. Purchase invoices are independently matched with purchase orders & Goods Received Notes (GRNs).
- B. GRNs require the signature of the individual who authorized the purchase.
- C. GRNs are pre-numbered in sequential order.
- D. Purchase orders are serially pre numbered.

**(2 marks)**

1.10. Which of the following is not a fundamental principle of the Code of Ethics of the Institute of Chartered Accountants of Sri Lanka?

- A. Professional behaviour
- B. Professional competence and due care
- C. Integrity
- D. Corporate social responsibility

**(2 marks)**

**1(b):** You are required to write short answers to all questions with attention given to action verbs.

(Total 30 marks)

1.11. The management has adopted TARA framework for risk management.

**Required:**

**State** the appropriate risk management technique for each of the following risks identified by the management.

- i. Inclusion of ghost employees in the payroll system.
- ii. Destruction of factory due to landslide.
- iii. Theft of cash by employees.

**(3 marks)**

1.12. Following a spot check on inventory, the management of an entity has identified deficiencies in some items compared to the bin card balances.

**Required:**

**List** three (03) possible reasons for inventory deficiencies.

**(3 marks)**

1.13. 'Preparing a bank reconciliation' is a critical arithmetical and accounting control.

**Required:**

**List** three (03) items that may be found in bank reconciliations other than the cash book balance and the bank statement balance.

**(3 marks)**

1.14. 'Application controls' are those controls that pertain to the scope of individual business processes or application systems, including data edits, separation of business functions, balancing of processing totals, transaction logging, and error reporting.

**Required:**

**List** three (03) types of application controls.

**(3 marks)**

- 1.15. Salaries & wages represent a major cost element for many business organisations. Consequently, significant business risks may be associated with the payroll management process.

**Required:**

**List** three (03) business risks in the payroll management process.

**(3 marks)**

- 1.16. Fixed asset management is important to safeguard the fixed assets owned by business organisations.

**Required:**

**State** one (01) implication of following control deficiencies in relation to fixed asset management:

- i. Unique asset code has not been assigned to some assets in the Fixed Assets Register (FAR)
- ii. Fixed Assets Register (FAR) does not reconcile with the general ledger
- iii. Furniture and office equipment had been included in capital work in progress for more than 3 months

**(3 marks)**

- 1.17. Managers require both internal and external information to make informed business decisions and report externally. The quality of the information system is a key factor in this aspect of internal control.

**Required:**

**List** three (03) types of information systems that may be used by companies to achieve this objective.

**(3 marks)**

- 1.18. Within the governance structure of a company, there may be several committees set up by the board of directors for monitoring particular aspects of the company's affairs.

**Required:**

**Identify** three (03) such committees that may be set up by the board.

**(3 marks)**

1.19. Assurance engagements are said to have a three party relationship.

**Required:**

**Identify** the three parties involved in an assurance engagement.

**(3 marks)**

1.20. An auditor cannot obtain absolute assurance because there are inherent limitations in an audit that affects the auditor's ability to detect material misstatements.

**Required:**

**Identify** three (03) such inherent limitations.

**(3 marks)**

## SECTION 2

*Three out of the four questions should be answered.*

*Total marks for Section 2 is 30 marks.*

*Recommended time for the section is 54 minutes.*

### Question 02

You are the accountant in a newly established business organisation. The company has recently recruited three school leavers as accounts assistants.

The managing director has requested you to conduct an induction session for the recruits covering the basic areas of the accounting function of the company. He further requested you to prepare brief notes to be given to the accounts assistants.

#### **Required:**

1. **Identify** the point at which each of the following documents are generated. (Example: Payment voucher is raised at the point of making a payment by cheque.)

- i. Cash / cheque receipt
- ii. Petty cash voucher
- iii. Journal voucher
- iv. Sales invoice
- v. Goods received note
- vi. Purchase order
- vii. Delivery note
- viii. Material requisition note
- ix. Withholding tax deduction certificate on interest income
- x. Credit note

**(1/2 mark x 10 = 5 marks)**

2. **State** the main use of the following documents/terms used by an exporter:

- i. Bill of lading
- ii. CUSDEC
- iii. INCOTERMS
- iv. Shipping guarantee

**(1 1/4 mark x 4 = 5 marks)**

**(Total 10 marks)**

### Question 03

You are the auditor of Toyland, a limited liability company which manufactures and sells small toys through its own shop.

The company is managed by the owner, Mr. Kumara, and two assistants. Mr. Kumara authorises important transactions such as wages and large payments. One assistant maintains the payable ledger and inventory, and also pays suppliers. The other assistant handles billing, collection and banking. Due to other commitments, Mr. Kumara visits the office only once a week.

All sales are made on cash basis and the following figures are extracted from the annual financial statements provided for the audit.

	<b>Rs. '000</b>
Turnover	36,253
Gross profit	20,761
Depreciation	1,120
Wages	2,678
Inventory	7,334
Cash at bank	5,542

You are planning the audit of Toyland and are considering using the following procedures for gathering audit evidence.

- i. Inquiry
- ii. Inspection
- iii. Observation
- iv. Recalculation
- v. Analytical procedures

**Required:**

1. **Explain** the use of each of the above procedures in gathering audit evidence. **(5 marks)**

2. **State** one (01) example of each of the above procedures for the audit of Toyland. **(5 marks)**

**(Total 10 marks)**

#### Question 04

Saman's employer has called for tenders to contract the construction of a new factory building. The closing date for submitting tenders was 1<sup>st</sup> of December at 5 p.m. However due to unavailability of the members of the tender committee, opening of tenders was postponed to 9 a.m. on 2<sup>nd</sup> December. All quotations submitted were put into a box that was sealed at 5 p.m. on 1<sup>st</sup> December and was kept under Saman's custody. On 2<sup>nd</sup> of December around 8 a.m. Saman's brother called Saman and informed him that due to an oversight, his employer could not submit the quotation on the due date. Saman's brother requests him to somehow insert their quotation before opening of quotations.

#### Required:

1. **Discuss** the above incident with reference to ethics and values. **(5 marks)**
  
2. **Explain** the following terms with reference to ethics and values
  - i. Integrity
  - ii. Confidentiality
  - iii. Independence**(5 marks)**

**(Total 10 marks)**

#### Question 05

You have been recruited as the accounts executive in-charge of payroll at Anupama Garments Private Limited (AGPL). AGPL has around 5,000 people working in the factory. The factory workers' wages are calculated at a daily rate per an eight-hour working day. Sunimal is the payroll clerk responsible for the payroll. Wages Board Ordinance and Shop and Office Employee Act governs the working hours and labour regulations.

Each new recruit is issued with a barcode which is used to mark the attendance, and attendance is captured by Pay Time software. The attendance system generates absenteeism reports, OT report and invalid SWIP reports. Sunimal clears invalid SWIPs by informing the relevant employees.

Payroll is calculated by Paymaster, an internally developed software by uploading the attendance details. Once the payroll is processed, a bank file is automatically generated. Sunimal forwards the bank file to the bank and the respective employee's bank account will be automatically credited with their net pay. Only

Mr. Jagath, HR manager, and Sunimal have full access to the attendance system, payroll master data and payroll calculation programs in the system.

A recent audit conducted by internal audit has revealed the following alleged frauds in payroll:

- i. Processing the salary for resigned employees and their payment mode had been changed from bank to cash.
- ii. Salary calculated for resigned employees had been included in the unclaimed wages schedule. Most of these unclaimed salaries had been subsequently misappropriated by forging the signatures of the correct employees.
- iii. Unusual OT payments for some employees. There had been employees who were paid for more than 24 hours of OT per day.

**Required:**

1. **Explain** five (05) internal control deficiencies in attendance capturing, payroll calculation and payroll payments which would have contributed to the above fraudulent activities.  
**(5 marks)**
  2. **List** one (01) control each that should be in place to overcome the deficiencies you identified in (1) above.  
**(5 marks)**
- (Total 10 marks)**

## SECTION 3

*Compulsory question.*

*Total marks for Section 3 is 20 marks.*

*Recommended time for the section is 36 minutes*

### Question 06

Domex Ltd is a privately owned company that operates a workshop which repairs electrical appliances such as refrigerators, washing machines and ovens. All repair jobs are supported by Job Cards and performed by qualified technicians.

Customers are required to pay either by cash or cheque upon collection of the repaired items. Cheques are accepted only from corporate customers. The following procedures are applied to the collection and banking cycle.

- The cashier collects cash or cheques from customers when collecting the repaired items. A system generated receipt is issued to the customer at the same time.
- The cashier posts the receipts to the cash book at the end of the day and also updates the sales ledger.
- Corporate customers post their cheques under registered cover and the receptionist opens the mail and she records the cheque details in the inward cheque register. Cheques are then handed over to the cashier.
- When the cashier is on leave, cash and cheques are collected by any member of the finance team available and system receipts are issued to customers. The cashier has written his password in a notepad for use of the finance team members only when he is on leave.
- An accounts assistant prepares bank reconciliations on a monthly basis and submits them for the review of the accountant if requested.

#### **Required:**

1. **State** three (03) objectives of the internal controls that should be exercised over the cash and banking cycle. **(3 marks)**
2. **Identify** five (05) deficiencies in the above mentioned procedures of Domex Ltd and **explain** their potential consequences. **(10 marks)**
3. **State** one (01) control to address each of these deficiencies identified in (2) above. **(5 marks)**
4. **List** two (02) inherent limitations of internal controls. **(2 marks)**

**(Total 20 marks)**