



UNIVERSITY OF KELANIYA - SRI LANKA

Centre for Distance and Continuing Education

FACULTY OF COMMERCE & MANAGEMENT STUDIES

Bachelor of Commerce (Special) Degree Third Year Examination (External) – 2014/15

August 2020

BCOME 3072 – Audit & Assurance

No. of Questions: Five (05)

Time : Three Hours (03)

Answer four (04) questions including question no. 01.

(01)

- (a) You are the senior auditor in charge of the audit of Win (Private) Limited. The company has two manufacturing plants in Kuliypitiya and Chilaw. Head office is located in Colombo. The company sells its products through various outlets across the country. Each showroom accepts orders from customers and puts them in the IT system. Showroom staff have access to the bulk and invoice issuance sections of the IT system and the IT system is integrated into the company's accounting system. The Department of Finance and Information Technology is located at the head office.

The company's drafted financial statements for the year ended March 31, 2019, and the audited financial statements for the year ended March 31, 2018 are listed below.

Statement of Income			
	(Rs. "000")		
For the year ending	2019	2018	
Sales	1,500		1,100
Cost of Sales	(700)		(600)
Gross Profit	800		500
Sales & Distribution Expenses	(45)		(25)
Administration Expenses	(32)		(22)
Operating Profit	723		453
Financial Expenses	(20)		(15)
Profit before Tax	703		438
Tax Expense	(70)		(55)
Profit for the Year	633		383

Statement of Financial Position		
	(Rs. "000")	(Rs. "000")
	March 31 st , 2019	March 31 st , 2018
<u>Non-current Assets</u>		
Property, Plant & Equipment	900	700
	900	700
<u>Current Assets</u>		
Inventory	305	430
Trade Receivables	90	70
Cash & Cash Equivalent	95	75
	490	575
Total Assets	1,390	1,275
<u>Capital</u>		
Stated Capital	500	550
Retained Earnings	480	300
	980	850
<u>Non-current Liabilities</u>		
Bank Loan	150	110
	150	110
<u>Current Liabilities</u>		
Trade Payables	260	315
	260	315
Total Capital & Liabilities	1,390	1,275

You are required to answer the following.

(i) Based on the above information, outline five (05) areas that you should focus on when conducting the audit of Win (Private) Limited Company. (05 Marks)

(ii) State five (05) risk assessment procedures you can perform to identify and assess the risk of misstatements in the audit of Win (Private) Limited. (10 Marks)

(b) Green Med (Private) Limited is a manufacturing company. The company has more than 250 employees at its factory. Those employees are paid a monthly salary, overtime pay and attendance allowance.

The employee turnover of the company is relatively high. The Human Resource department prepares the payroll of the company and is checked by the financial accountant. After the salary register is approved by the General Manager, the net salary of each employee is sent to their respective bank accounts.

After the salary for April 2018, five new employees have complained that their salaries have not been sent to their bank accounts, while another ten employees have complained that their overtime payments have been reduced.

There is a need to address the issue of whether management is now overpaid.

You are required to,

(i) Explain the auditor's responsibility for fraud.

(04 Marks)

- (ii) State three (03) controls that Green Med (Private) Limited may consider in implementing controls to mitigate the risk of its employees being paid less or more.
(06 Marks)
(Total 25 Marks)

(02)

- (a) State three (03) non-assurance engagement that a Practitioner can provide.
(03 Marks)
- (b) "Based on the appropriate criteria, the auditor must plan and perform audit procedures for the purpose of obtaining sufficient audit evidence that is appropriate". Explain what is meant by the appropriate criteria, sufficient and appropriateness of audit evidence.
(07 Marks)
- (c) The practitioner needs to plan and perform the assurance engagement with a professional skepticism. Define the "professional skepticism" and explain its need for planning and fulfilling the assurance engagement.
(15 Marks)
(Total 25 Marks)

(03)

- (a) Assurance Engagement is a relationship of three (03) parties. Briefly describe the three (03) parties involved in an assurance engagement.
(06 Marks)
- (b) Explain the auditor's responsibility for rules and regulations that directly affect financial statements.
(07 Marks)
- (c) In a board meeting after the completion of audit of Palitha PLC, one of its directors stated that the audit report issued by the auditor is 100% accurate and there is no risk of having a report with misstatements. Do you agree with this statement? Discuss.
(12 Marks)
(Total 25 Marks)

(04)

- (a) Briefly discuss the key ethical principles applicable to an auditor.
(06 Marks)
- (b) Explain briefly how a practitioner's conclusion regarding a Reasonable Assurance Engagement differs from its conclusion regarding a Limited Assurance Engagement.
(07 Marks)

- (c) You are conducting the audit of Mega company. During the fiscal year ended March 31st, 2019, there was a significant change in the management of Mega company. You have informed the new management of the need to issue a new engagement letter as you feel that the new management has misunderstood the terms of the engagement. What do you include as principle contents in the new engagement letter? Explain.

(12 Marks)

(Total 25 Marks)

(05) Write short notes on the following:

- (a). Performance Materiality
- (b). Inherent Risk
- (c). Subject Matter
- (d). Recurring Audit
- (e). Professional Judgement

(05 Marks each = Total 25 Marks)