



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) – 2021

August – 2024

BCOM E 3072 - Auditing & Assurance Service

No. of Questions : Six (06)

Time: 03 hours

Answer Five (05) questions including questions No: 01.

Question No.01

Dilro Public Company Limited is a large-scale company which operates in the batik textile industry in Sri Lanka. The company is one of the most popular companies in Sri Lanka for designing, sewing and selling the latest batik fashions for models. The batik industry is a highly competitive industry in Sri Lanka, and in order to overcome the competition, constantly presenting new designs is an essential factor for the company.

In the middle of 2023, the batik fashion trend in Sri Lanka was the batik saree, which became more popular among customers. Therefore, due to the high demand, Dilro Company produced batik sarees worth Rs.25 million. However, by the end of 2023, sleeveless office wear became more popular among its customers. As of 31.12.2023, Dilro Public Company Limited had a stock of batik sarees worth 5 million rupees, and office wear worth 2 million rupees in its warehouse.

You have been allocated as the audit manager of the audit of Dilro Public Company Limited for the year ending 31st December 2023.

a) Identify three general areas of business of Dilro Public Company Limited that you need to consider in understanding the entity and its environment, giving an example for each.
(06 marks)

b) i). Explain an audit risk associated with stocks that you are required to identify at the planning stage of the audit.
(03 Marks)

ii). Explain two audit procedures you would perform in response to the risk identified in (i) above.
(04 Marks)

iii). Explain three financial statement assertions to be considered, along with the audit procedure to be performed for each statement while auditing the stock balance of Dilro Public Company Limited as of 31st December 2023.
(07 Marks)

(Total 20 Marks)

Question No.02

- a) State the five elements of an assurance engagement.

(05 Marks)

- b) "The auditor's role is to provide 100% assurance that the financial statements are free from material misstatement during the audit".

Do you agree with the above statement? Explain your answer.

(07 Marks)

- c) Explain with examples the difference between "reasonable assurance engagement" and "limited assurance engagement".

(08 Marks)

(Total 20 Marks)

Question No.03

Isharo Public Company wishes to appoint R and T Audit Firm as their auditors for the financial year 2023/2024.

- a) In accordance with Sri Lanka Auditing Standard No. 210: Agreeing the Terms of Audit Engagement, indicate four (4) mandatory points that must be included in the audit engagement letter in accepting this audit engagement.

(05 Marks)

- b) Assume that you have been appointed as the Audit Manager in relation to the above audit. Explain the overall objective of the audit to a recently joined audit trainees of R and T Auditing Firm.

(07 Marks)

- c) Describe four (4) basic ethical principles that are to be displayed by the audit firm for audit of Isharo Public Company.

(08 Marks)

(Total 20 Marks)

Question No.04

- a) **Bottles Company Limited** is engaged in manufacturing glass bottles of various sizes, and **Fruit Juice Company Limited** is engaged in the manufacturing of fruit juice with flavours of various fruits. Bottles Company Limited and Fruit Juice Company Limited decided to merge their businesses and run a single business called **Bottled Fruit Juice Company Limited**.

The proposed merger transaction is expected to involve complex accounting principles and significant management involvement from both businesses.

Explain why the above scenario creates significant audit risk.

(10 Marks)

b) All information the auditors use to form the audit opinion usually “called audit evidence”.

i). What do you mean by sufficient and appropriate audit evidence?

(04 Marks)

ii). There is an inverse relationship between the risk of material misstatements in the financial statement and the sufficiency of audit evidence needed to gather. Do you agree with this statement? Explain your answer.

(06 Marks)

(Total 20 Marks)

Question No.05

Due to the inherent limitations of an audit, there is an unavoidable risk that the financial statements may contain material misstatements without detecting material fraud and errors.

a) State three inherent limitations of an audit.

(03 Marks)

b) Explain the procedures to be followed by the auditor when there is evidence of fraud or error in the financial statements.

(07 Marks)

c) Specific circumstances may arise where an auditor is unable to perform his role due to misstatements resulting from a suspected case of fraud or error.

Explain the steps to be taken by the auditor in such a situation.

(10 Marks)

(Total 20 Marks)

Question No.06

Explain the following terms in brief.

a). Professional Skepticism

b). Financial Statements Assertions

c). Suitability Criteria

d). Recurring Audit

e). Intended Users

(04 x 05 Marks = Total 20 Marks)