



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) – 2024

May – 2026

BCOM E 3072 - Auditing & Assurance Service

No. of Questions : Five (05)

Time: 03 hours

Answer four questions including the first question.

Question No.01

You are the Audit Manager at **Apex Audit Associates**, a firm of Chartered Accountants. Your client, **Green Leaf Organics (Pvt) Ltd**, is a leader in the organic food sector. Today is **December 10, 2026**, and your firm has been invited to audit their financial statements for the year ending **December 31, 2026**.

Recently, the company's ownership and Board of Directors changed completely, and the internal control systems were restructured. The management is strongly requesting the audit report by early **February 2027**. Due to this busy period, your firm is planning to assign a less experienced audit team. Furthermore, Mrs. Perera, the wife of your audit partner's cousin, was recently appointed as the Chief Financial Officer (CFO) of Green Leaf Organics the company. Earlier this year, your firm also provided valuation services to this company.

a) Discuss the importance of an audit of financial statements. Explain why auditors provide **reasonable assurance** instead of **absolute assurance**.

(10 Marks)

b) In accordance with the Code of Ethics for Professional Accountants, outline the ethical and professional issues that must be evaluated before accepting this audit engagement.

(10 Marks)

c) When conducting the audit for a second consecutive year, identify the factors to consider when deciding whether to update the terms of the **audit engagement** or issue a reminder of existing terms.

(05 Marks)

(Total 25 Marks)

Question No.02

PurePulse Beverages (Pvt) Ltd is a local fruit juice manufacturing company with 120 employees. However, the company does not have formal business processes or internal controls. Mrs. Nilanthi, the wife of the Managing Director (who has no background in finance), handles invoicing and the follow-up on debt collection. Financial statements have not been prepared for the past three years, and proper documentation for purchases is not maintained. The Managing Director is directly involved in purchasing supplies. The company is now preparing to introduce a computerized system.

a) Explain the following control types with examples: **Operational Controls, Financial Controls, and Compliance Controls.**

(05 Marks)

b) Identify three (03) **internal control weaknesses** in this company and analyze the internal controls required to rectify them.

(10 Marks)

c) Describe the importance of the components of the **COSO Framework** in establishing an internal control system.

(10 Marks)

(Total 25 Marks)

Question No.03

You are the Audit Senior in charge of the audit of **Horizon Synergy Group** for the year ended **March 31, 2026**. This group operates in various sectors, including construction, financial services, and technical solutions. Allegations of asset misappropriation have been made against the Group Finance Director in the media.

a) Discuss the relationship between the **Risk of Material Misstatement (ROMM)** and the quantity of audit evidence to be gathered.

(05 Marks)

b) Explain the meaning of **sufficiency** and **appropriateness** of audit evidence and list four (04) factors that affect the reliability of audit evidence.

(10 Marks)

c) Explain the auditor's responsibility regarding fraud prevention under **SLAuS 240**, and identify four (04) audit procedures related to auditing **revenue recognition**.

(10 Marks)

(Total 25 Marks)

Question No.04

a) You are an Audit Supervisor at **Visionary Audit Corp.** You are planning the audit for the financial year ending **December 31, 2026**, for your client, **BioShield Chemicals (Pvt) Ltd.** **BioShield Chemicals** has invested Rs. 4 million in a new line of bio-products. The implementation of a recently introduced Cloud-based software system has been delayed until **February 2027**, and two senior finance officers resigned in **December 2026**.

(i) Identify four (04) **audit risks** in this scenario and state the auditor's responses to those risks.

(10 Marks)

(ii) Discuss the purpose and importance of including a **Key Audit Matter (KAM)** paragraph in the auditor's report.

(05 Marks)

b) During the audit of Trend Setter Fashion for the year ended March 31, 2026, it has been identified that, a provision of Rs. 110,000 was made for employee redundancies. However, according to audit findings, the required provision should be Rs. 305,000. The Finance Director refuses to correct this. Describe the impact on the **auditor's report** if this issue remains unresolved.

(10 Marks)

(Total 25 Marks)

Question No.05

Briefly explain the following terms related to Auditing

- i. Professional Skepticism
- ii. Professional Judgment
- iii. Materiality
- iv. Financial Statement Assertions
- v. Going Concern

(05 x 05 Marks)

(Total 25 Marks)

