UNIVERSITY OF KELANIYA – SRI LANKA

Centre for Distance and Continuing Education

Faculty of Commerce & Management Studies

Bachelor of Commerce (Special) Degree Second Year Examination (External) – 2019

July – 2025

BCOM E 2063 - Auditing

No. of questions: five (05)

Answer all questions **Time: 03 hours**

Question No. 01

The requirement for the audit of financial statements mainly arises due to legal requirements and the agency theory.

a) Briefly explain the legal requirement for the audit of Financial Statements.

(05 Marks)

b) Discuss the three components of the Audit expectation gap.

(07 Marks)

c) Discuss the elements of an assurance engagement, referring to an audit engagement.

(08 Marks)

(Total 20 Marks)

Question No. 02

a) "Audit risk is a function of the risks of material misstatement and detection risk". Do you agree with this statement? Explain.

(05 Marks)

b) Discuss audit risk assessment procedures using the techniques of Inquiries, Analytical procedures and Observations.

(05 Marks)

c) The Engagement Partner shall take responsibility for the overall quality of audit engagement.

i. List out the key requirements to meet the quality of an audit engagement.

(04 Marks)

ii. Explain how the engagement partner shall assess and satisfy the appropriate competence and capabilities of the engagement team and any other experts in the audit engagement.

(06 Marks)

(Total 20 Marks)

Question No. 03

When designing audit procedures, the auditor should determine appropriate means for selecting items for testing so as to gather sufficient appropriate audit evidence to meet the objectives of the audit procedures.

a) What are the means available to the auditor in selecting items for testing to gather audit evidence?

(03 Marks)

b) What are the factors to be considered by the auditor when determining the sample size?

(03 Marks)

c) Explain the following under audit sampling.

   a. Tolerable error
   b. Expected error

(02x03 Marks= 06 Marks)

d) What appropriate steps should an auditor take when fraud is detected during the conduct of an external audit?

(08 Marks)

(Total 20 Marks)

Question No. 04

You are the audit manager of the audit of Three Star (Private) Limited for the year 2024/2025. The audit partner of the firm asked you to prepare the overall audit strategy and the audit plan in order to perform the audit in an effective manner.

a) Distinguish the audit plan from the overall audit strategy.

(02 Marks)

b) List out the key planning activities that you wish to perform at the planning stage of the audit of Three Star (Private) Limited.

(04 marks)

c) Identify the financial statement assertions that an auditor can use in preparing the audit procedures.

(06 Marks)

d). Prepare an audit procedure to verify the property, plant and equipment balances as of the balance sheet date.

(08 Marks)

(Total 20 Marks)

Question No. 05

Briefly discuss the following

a). Substantive procedures

b). Vouching and Verification

c). The objective of an audit of financial statements

d). Documentation

(04 x 05 Marks = 20 Marks)

(Total 20 Marks)