

Part C – Essay Questions

Answer only three (03) questions including question No. 01.

Marks allocation: 50 Marks

01. a) GOODLOOK Furniture (“the company”), a private limited company, manufactures and sell furniture. GOODLOOK Furniture specialises in office, factory and home furniture. The company was founded in 2001. The Company’s head office in Kalutara and manufacturing operations are located in Horana.

GOODLOOK Furniture’s target, which was approved by shareholders, is to increase sales by 5% in the year 2011. GOODKUCK Furniture has been an audit client of you since 2009 and their financial year is ended by 31st December.

Assume that as an auditor, you are assigned to carry out the statutory audit of GOODLOOK Furniture Pvt. Ltd for the year ended 31st December 2011.

You are required to:

- i) Identify the business objective of GOODLOOK Furniture Pvt. Ltd for the year 2011. (01 mark)
 - ii) Briefly explain what do you mean by a statutory audit. (02 marks)
 - iii) State what are the business risks that are linked with the said business objective in part (i) above. (02 marks)
 - iv) Explain possible management’s responses or controls in relation to business risks listed in part (iii) above. (04 marks)
 - v) List the audit risks that can be mapped to business risks. (02 marks)
 - vi) Discuss the auditor’s responses for audit risks listed in part (iv) above. (04 marks)
- b) Assume that you are also planning the audit of financial statements of GOODLOOK Furniture Pvt. Ltd for the year ended 31st March 2011.

You are required to:

- i) Explain required procedures for undertaking an audit of financial statements. (05 marks)
- ii) Prepare a list of factors influences on an audit that you will concern your audit planning context. (06 marks)

- c) "A forensic audit is an examination of an organisation's or individuals' economic affairs resulting in a report designed especially to use in a court of law".

Explain four (04) objectives of a forensic audit.

(04 marks)

(Total -30 Marks)

02. a) The auditor should document matters which are important in providing audit evidence to support the auditor's opinion and evidence that the audit carried out.

Thus the auditor should prepare working papers which are sufficiently complete and detailed to provide an overall understanding of the audit.

You are required to:

Identify the reasons that are affecting the form and content of working papers. (05 marks)

- b) Working papers can be in any form desired by the auditor but a usual division is between the Permanent File and the Current File.

The current file will contain matters pertinent to the current year's audit.

You are required to:

List the possible contents of a current file index.

(05 marks)

(Total - 10 Marks)

03. a) Among the methods of obtaining audit evidence available to an auditor, there are analytical review procedures. Analytical review can be and should be carried out at all the stages of the audit from planning to final review.

Justify the above statement by emphasizing the followings.

- meaning of analytical procedures (02 marks)
- nature of analytical procedures (03 marks)
- purposes of using analytical procedures (03 marks)

- b) What are the quantitative bases for the calculation of materiality for planning purposes (MPP)?

(02 marks)

(Total -10 Marks)



04. a) A conceptual framework that requires a professional accountant to identify, evaluate and address threats to compliance with the fundamental ethical principles.

Identify these fundamental ethical principles.

(03 marks)

- b) Consider the following situations.

- i) Having a close business relationship with a client;
- ii) Performing a service for a client that directly affects the subject matter (e.g.: financial statements) of the assurance engagement;
- iii) A member of the audit team having a close or immediate family relationship with a director or officer of the client;
- iv) Acting as an advocate on behalf of an assurance client in litigation;
- v) Being pressured to reduce inappropriately the extent of work performed in order to reduce fees.

You are required to:

As an auditor (professional accountant), state what is the related threat to compliance with fundamental ethical principles in each of the above situations.

(05 marks)

- c) There are three (03) basic techniques used when documenting client's systems such as internal controls.

Give any two (02) basic techniques in that context.

(02 marks)

(Total - 10 Marks)

05. The auditor should review and assess the conclusions drawn from the audit evidence obtained as the basis for expression of an opinion on the financial statements.

The auditor's report should contain a clear written expression of opinion on the financial statements taken as a whole. An auditor's report is considered to be modified in certain situations.

You are required to:

Discuss the situations when an auditor's report is considered to be modified. (10 Marks)