

Uva Wellassa University
Faculty of Management



Degree of Bachelor of Business Management in Entrepreneurship and Management
THIRD YEAR SECOND SEMESTER EXAMINATION – SEPTEMBER/OCTOBER 2012
EMG 306 – 2/EMG 312 – 2/EMG 333 - 2 Auditing

Part C – Essay Questions

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

Marks allocation: 50 Marks

01.

a) Rasakatha (Pvt) Ltd. is a telecom service provider and a new entrant to the industry. Industry competition is currently driven by price. There is a head to head competition and rivals exert pressure to reduce prices. The management is facing the challenge of adopting new technology.

You are required to:

i) Identify related **business risks** and explain why you treated them as business risks.

(04 marks)

ii) Business risk is a broader aspect than the risk of material misstatement of the financial statements, though it includes latter. An understanding business risks increases the likelihood of identifying risks of material misstatement for the purpose of the audit.

Justify the above statement by **emphasizing** the followings:

- meaning of the business risk;
- sources of the business risk by using suitable examples;
- inter-play between business risk and audit risk.

(10 marks)

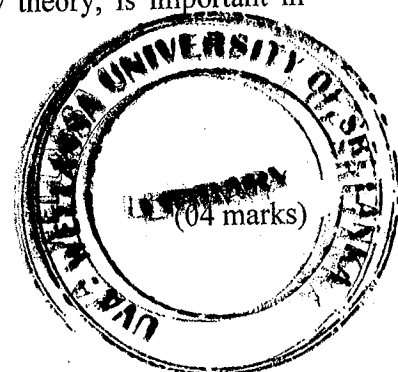
b) Discuss the matters the auditor may consider when establishing the **scope** of the audit engagement.

(05 marks)

c) Audit serves a fundamental purpose in promoting confidence and reinforcing trust in financial information. The principle – agent relationship, as depicted in agency theory, is important in understanding how the audit has developed.

You are required to:

Comment on the above statement.



(04 marks)

- d) The audit of small companies creates special problems for auditors.

You are required to:

Briefly discuss the reasons why small companies create special problems for auditors and consider the reasons why auditors should direct their work more to verification of items by physical inspection and third party evidence than is the case when auditing larger companies.

(07 marks)

(Total – 30 Marks)

02.

- a) Discuss the five (05) fundamental principles that should comply with by a professional accountant.

(05 marks)

- b) In recent years, Corporate Governance had received increased attention because of high profile scandals involving abuse of corporate power.

You are required to:

Explain the **auditor's role** in Corporate Governance of a company by drawing the **recent examples** from the Sri Lankan context.

(05 marks)

(Total – 10 Marks)

03.

- a) Explain three (03) reasons in relation to why auditors cannot provide **an absolute assurance** on financial statements.

(06 marks)

- b) State four (04) persons who are **disqualified** to be appointed as auditors of a company in terms of the requirement of the Companies Act No.07 of 2007.

(04 marks)

(Total – 10 Marks)

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

You are required to:

List up what are the contents of working papers generally include.

(10 Marks)