

**Uva Wellassa University**

Faculty of Management

Bachelor of Business Management in Entrepreneurship and Management

3rd YEAR 2ND SEMESTER EXAMINATION – JUNE / JULY 2010

EMG 333-2 AUDITING

Part B - Structured Questions

Part C - Essay Questions

Index No:
Instructions

No. of pages : Eight (08)
No. of questions : Five (05) in Part B
Six (06) in Part C
Time : One (01) hour and forty (40) minutes
Total marks allocated : 85

Part C – Essay Questions

Answer *only three (03)* questions *including question number 1* in this section.

Total Marks: 50

1.

- a) Risk based audit requires the auditor to understand the business and identify the business risks facing the client. Risk of material misstatements arising from business risk can then be assessed.

As part of the risk assessment, the auditor should determine which of the risks identified are, in the auditor's judgment, risks that require special audit consideration (Significant Risks).

You are required to:

- i) Briefly explain what is meant by business risk and discuss the sources of business risk. Support your answer with suitable examples.

(8 marks)

- ii) Explain the components of audit risks.

(6 marks)

- iii) Demonstrate the relationship between audit risk and business risk by using an appropriate diagram.

(4 marks)

- b) The following paragraph has been extracted from Auditor's Report on financial statements in relation to Omega PLC.

"We did not observe the counting of the physical inventories as of March 31, 2010, since that date was prior to the time we were initially engaged as auditors for the company. Owing to the nature of company's records, we were unable to satisfy ourselves as to inventory quantities by other audit procedures".

You are required to:

- i) Identify the appropriate audit opinion that auditor should stipulated based on above scenario.

(2 marks)

- ii) Draft a suitable audit opinion paragraph that to be inserted into Auditor's report.

(3 marks)

c)

- i) State any two of financial statement assertions.

(2 marks)

- ii) The following control activities have been identified relating to order processing in Nethmin PLC.

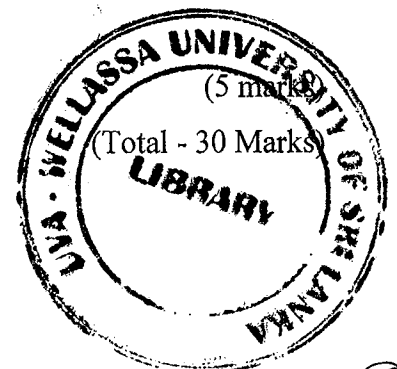
- a) A valid customer number must exist in the order processing system to generate a sales order. Sales to fictitious customers are prevented.
- b) The system automatically assigns a sequentially numbered order number. orders are recorded completely and accurately
- c) The sales order will not be accepted into the system if there is incomplete or inaccurate information in any of the key fields. Orders are recorded completely and accurately.
- d) Orders identified in the system as 'standby' can not be processed until the sales manager verifies that the items are available. Procedures exist to approve sales orders.
- e) Standards prices are set up within the system and can not be changed by the sales team. Price and amount of sales are correct.

You are required to:

State which of the financial statement assertions are covered by the above control activities.

(5 marks)

(Total - 30 Marks)



2. Explain what are the duties of auditor towards stocktaking:

- a) Before the stocktake;
- b) During the stocktake;
- c) After the stocktake.

(10 Marks)

3. "The auditor and the client should agree on the terms of the engagement. The agreed terms would need to be recorded in an audit engagement letter or other suitable form of contract".

You are required to:

List out what are the principle contents that would be included in the letter of engagement.

(10 Marks)

4.

a) Explain the matters that the auditor may consider when establishing the scope of the audit engagement.

(5 marks)

b) "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 out what are the contents of working papers ordinarily include.

(5 marks)

(Total - 10 Marks)

5. Discuss five fundamental principles that would be followed by a professional accountant.

(10 Marks)

6. Explain basic elements of the Auditor's Report.

(10 Marks)