Uva Wellassa University

Faculty of Management

Degree of Bachelor of Business Management in Entrepreneurship and Management

THIRD YEAR SECOND SEMESTER EXAMINATION – DECEMBER /JANUARY 2017

EMG 312-2 Auditing

Instructions to candidates:

No. of pages	: Three (03)
No. of questions	: Five (05) Essay
Time	: Two (02) Hours
Marks allocated	: 100 Marks

Index No:

Answer **only four (04)** questions.

01.

i) Briefly state the objective of financial statement audit. (05 Marks)

ii) "Audit risk is a function of the Risk of material misstatement and Detection risk."Do you agree with this statement? Justify your answer elaborating Audit risk, Risk of material misstatement and Detection risk. (10 Marks)

iii) The auditor should comply with the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka. Explain those Ethical principles which governing the auditor's professional responsibilities. (10 Marks)

(Total Marks-25)

02. Audit Planning is a continual and iterative process that often begins shortly after the completion of the previous audit and continuing until the completion of the current audit engagement. The nature and extent of planning activities will vary according to the size and complexity of the entity, the auditor's previous experience with the entity and changes in circumstances that occur during the audit engagement.

i) What is meant by planning an audit? (04 Marks)

ii) List activities involved in the establishment of the overall audit strategy? (06 Marks)

iii) Differentiate risk assessment procedures, further audit procedures and other audit procedures which include in audit plan. (06 Marks)

iv) Explain the activities the auditor should perform before starting an initial audit. (09 Marks)

(Total Marks-25)

06

03. Audit evidence include both information contained in the accounting records underlying the financial statements, and other information such as findings through audit procedures of previous audits and firm's quality control procedures.

i) Briefly explain the relationship between sufficiency and appropriateness of audit evidence. (05 Marks)

ii) Explain the types of audit procedures which use for obtaining Audit Evidences. Include examples for each. (15 Marks)

iii) What are the Assertions auditors apply when concerning account balances at the period end. (05 Marks)

(Total Marks-25)

04.

i) Briefly describe the basic elements include in an Audit Report. (12 Marks)

ii) Differentiate Modified audit opinion and unmodified audit opinion. (05 Marks)

iii) Suggest the appropriate audit opinion to be given for each of following independent situations.

a. The company's inventories are carried in the balance sheet at Rs.600,000 and management has not stated the inventories to the lower of cost and net realizable value but has stated inventory solely at cost. This shows neglect a fact from Sri Lanka Accounting Standards (LKAS 02). The company's records indicate that if management stated the inventories at the lower of cost and net realizable value, an amount of Rs.20,000 would have been required to write-down from inventories to their net realizable value. Accordingly, cost of sales would have been increased, and income tax, net income and shareholders' equity would have been reduced respectively. Except for the effects of the matter described above, the figures in financial statements are accurate.

b. The company has not consolidated the financial statements of subsidiary XYZ Company which is acquired during 2015 because it has not yet been able to ascertain the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under Sri Lanka Accounting Standards, the subsidiary should have been consolidated because it is controlled by the company. Since the company has not consolidated, many elements of financial statements have been materially affected. The effects of the failure to consolidate have not been determined.

(4x2=08 Marks)

(Total Marks-25)

05.

i) Explain the role of Analytical Procedures when conducting an audit. (06 Marks)

ii) Explain the difference between internal and external audit (07 Marks)

iii) Write short notes on followings.

a. Forensic audit

b. Compliance audit

c. Environmental & Social audit

d. Investigative audit (3x4=12 Marks)

(Total Marks-25)

06