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SCHOOL OF ACCOUNTING AND BUSINESS
BSc. (APPLIED ACCOUNTING) GENERAL / SPECIAL DEGREE
PROGRAMME

YEAR II SEMESTER II
END SEMESTER EXAMINATION – APRIL 2015

AFM 20730 Audit & Assurance

Date : 30th April 2015
Time : 5.30 p.m. - 8.30 p.m
Duration : Three (03) hours

Instructions to Candidates:

- Answer **ALL** questions.
- The total marks for the paper is 100.
- The marks for each question are shown in brackets.
- Use of scientific calculator is allowed.
- Answers should be written neatly and legibly.

Question No. 01

You are working as an audit assistant in the audit of Dilenatharu PLC. Dilenatharu PLC has been in the business of manufacturing and sale of garments. Around 80% of the garments manufactured by the company are exported to European countries while the balance 20% is sold in the local market. The company has two factories, one in Colombo and the other in Kurunegala.

- i. You have been asked to determine appropriate audit procedures for key assertions in trade receivables of Dilenatharu PLC. Briefly explain four audit procedures you would perform to verify trade receivables. (Procedures should very specifically state the financial statement assertion addressed)

(8 Marks)

- ii. Outline two test of details you would perform on existence assertion of Property Plant and Equipment.

(2 Marks)

- iii. Explain two test of details you would perform to verify revenue? (You should state the relevant financial statement assertion along with test of details proposed.)

(5 Marks)

(Total 15 Marks)

Question No. 02

You are the audit senior in charge of the audit of Run PLC. The principle activity of Run PLC, is manufacturing and sale of soft toys.

Current assets of Run PLC includes trade receivables amounting to Rs.850Mn (2013- Rs.500 Mn) and represents 80% of the total assets as at 31 March 2015. The company has not given you the permission to send the letters to debtors requesting direct confirmations from them. The Managing Director of the company stated that he could give you a letter stating that all debts could be recovered. Further you have noted that around 95% of the trade receivables have not been recovered as of the date of your audit and most of the customers have exceeded the credit period given to them.

- i. State three important points included in the opinion paragraph of the auditor's report.
(3 Marks)
- ii. List three types of modified opinion an auditor would express in financial statements audited.
(3 Marks)
- iii. Explain the validity of CEO's representation as audit evidence on the existence of Trade receivables?
(4 Marks)
- iv. Analyse the given information and state with the reasons the opinion to be provided on the financial statements of Run PLC. (You are required to draft the appropriate opinion paragraph)
(5 Marks)
- v. If the trade receivables amounted to 25% of the total assets of Run PLC as at 31st March 2015, Draft the appropriate modification to be included in the auditor's report to be issued for the financial statements of Run PLC.
(5 Marks)

(Total 20 Marks)

Question No. 03

- i. **In relation to Sri Lanka Framework for Assurance Engagement issued by the Institute of Chartered Accountants of Sri Lanka**

Explain the difference between reasonable assurance and limited assurance

(3 Marks)

- ii. Differentiate between the internal audit and external audit on the following aspects.

- Appointment.
- Reporting.
- Scope of the audit

(6 Marks)

- iii. Your firm has been appointed as external auditor of SUN PLC for the financial year ended 31st March 2015. SUN PLC was audited by another firm of chartered accountants in the previous years. State three procedures you perform before accepting the appointment as auditors of SUN PLC?

(3 Marks)

- iv. Briefly explain two methods that could be used by a practitioner to narrow down the expectation gap between the user's perception of responsibilities of a practitioner and the professional reality of an assurance engagement?

(4 Marks)

- v. Critically explain what do you understand by professional skepticism?

(4 Marks)

(Total 20 Marks)

Question No. 04

i. Define Audit Evidence

(2 Marks)

ii. Critically explain what you understand by sufficient appropriate evidence, giving an example.

(4 Marks)

iii. State the elements of internal control system?

(3 Marks)

iv. Explain the following giving an example each?

- Preventive Controls.
- Detective Controls.
- Corrective Controls.

(6 Marks)

v. Explain four reasons why internal control might fail to achieve their objectives?

(6 Marks)

vi. Explain the difference between the design effectiveness and operating effectiveness of internal controls?

(4 Marks)

(Total 25 Marks)

Question No. 05

i. State three main stages of risk management framework?

(3 Marks)

ii. Explain the four ways of responding to risk with an example for each?

(4 Marks)

iii. State four methods that could be used to reduce risk?

(4 Marks)

iv. State one internal control that could be introduced mitigate each one of the following risks associated with procurement process?

- Goods that are not required will be ordered.
- Goods may be ordered at an excessive price.
- The supplier submits an invoice for goods that have not been delivered.

(3 Marks)

v. Explain three risks of inventory management process and suggest one internal control you would introduce to mitigate the risks you have identified?

(6 Marks)

(Total 20 Marks)