



FINAL YEAR EXAMINATION IN BACHELOR OF BUSINESS ADMINISTRATION  
(EXTERNAL) – 2011/2012  
HELD IN NOVEMBER / DECEMBER 2013

**BBA 37 (1) – AUDITING - I**

Duration: 03 hours  
Answer all Questions

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**Question No: 01**

a) Briefly explain what you understand by the term “true and fair view” in the context of audit of financial statements.

(04 Marks)

b) You are the senior in charge of the audit of Maxire (Pvt) Ltd. Mr. Faizal, Managing Director of Maxire (Pvt) Ltd, informed you that the primary objective of statutory audit is to detect fraud and error.

Would you agree with Mr. Faizal? Justify your answer.

(04 marks)

c) State two (02) requirements Specified Business Enterprises (SBEs) should comply with as per the Sri Lanka Accounting & Auditing Standards Act No.15 of 1995.

(03 marks)

d) “An auditor does not provide an absolute assurance on the financial statements audited by him”. State four (04) reasons why an auditor cannot provide an absolute assurance on the financial statements audited by him.

(04 marks)

e) State four (04) Ethical Principles that should be followed by an Auditor when conducting their work.

(02 marks)

(Total Marks 17)

**Question No: 02**

An auditor should develop and document an overall audit plan describing the expected scope and conduct of the audit and should study system of internal control at the planning stage of audit.

a) Explain **permanent** and **temporary file** and its contents in conducting audit in an organization?

(05 marks)

b) Explain what is meant by **audit scope** and its limitations?

(03 Marks)

c) What are the objectives expected by the management when implementing internal controls relating to the accounting system?

(03 Marks)

d) List six (05) factors related to limitation of internal control

(05 Marks)

(Total Marks 16)

**Question No: 03**

You are the Audit Senior of Public Liability Company engage statutory audit for the year ended 31<sup>st</sup> March 2012 the audit plan approved by the partner included confirmation of accounts receivable as key audit procedures. You have selected a representative sample of key debtors using an appropriate sampling technique.

a) State two (02) objectives of calling for confirmation of debtors balances.

(04 Marks)

b) State two (02) alternative audit procedures that can be carried out in case those debtors do not respond.

(04 Marks)

c) If the management requests you not to call for confirmation of certain accounts receivable balances, state the matters you would consider in such situation.

(04 Marks)

d) After the audit has been completed and issuing the audit report, the management of that company discovered a fraud related to sales and debtors. As auditor you have carried out the confirmation procedure and audited the debtor's balances, the management has requested you to provide a report confirming the debtors balance at the year end. This report is to be used as evidence in the legal case filed by them.

Explain how you will **respond** to such a request. Indicate any **limitation** you would mention in your report.

(04 Marks)

(Total Marks 16)

**Question No: 04**

BPMG & Co. have been appointed as auditors to conduct audit of Accounts of PAN Exports Ltd. For the years ended 2011/2012. The auditors wanted to establish an **overall strategy** that would set the scope, timing and direction of the audit and also guide the development of the audit plan. Keeping in view the above,

- a) State three (03) factors that should be considered in developing the overall audit strategy.

**(03 marks)**

- b) State four (04) benefits of having a properly developed "Overall Audit Strategy".

**(04 marks)**

- c) SLAuS 300 Planning an Audit of Financial Statements provides guidance to assist auditors in planning an audit.

List four (4) objectives of audit planning

**(04 marks)**

- d) You are a member of the audit team auditing the financial statements of TMG Marketing (Pvt) Ltd. and you have been assigned the verification of Motor vehicles.

List four (04) important audit procedures you would perform in verifying Motor Vehicles appearing in the Statement of Financial Position (Balance Sheet) as at 31<sup>st</sup> December 2012.

**(04 marks)**

**(Total Marks 15)**

**Question No: 05**

- a) The Auditor's Report on the annual accounts of a company should contain a clear written expression of opinion on the financial position taken as a whole.

State the basic elements of an auditor's report.

**(04 marks)**

- b) Briefly explain under which circumstance an auditor will express an adverse opinion on the financial statements.

**(03 marks)**

- c) In performing an audit of financial statements, the auditor should have or obtain knowledge of the business sufficient to enable the auditor to identify and understand the events, transactions and practices that in the auditors' judgment may have a significant effect on the financial statement or on the examination or audit report.

List Four (04) sources from which the auditors could obtain a knowledge of the entity and the industry.

**(04 marks)**

- d) You are a member of the team auditing the financial statements of Lanka Herbal (Pvt) Ltd. When reading the board minutes of Lanka Herbal (Pvt) Ltd. you found that a customer has taken legal action against the company, filing a material claim against the company. Lanka Herbal (Pvt) Ltd. has not made a provision or a disclosure of this claim in financial statements. State an audit procedure you should perform regarding this matter.

**(03 marks)**

- e) SLAuS 230 Audit Documentation deals with the auditor's responsibility to prepare audit documentation for an audit of financial statements. The auditor should document matters which are important in providing audit evidence to support the auditor's opinion and evidence that the audit was carried out in accordance with SLAuSs.

State FOUR benefits of documenting audit work.

**(03 marks)**

**(Total Marks 17)**

**Question No: 06**

- a) "The auditor should perform audit procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of the auditor's report that may require adjustment of, or disclosure in, the financial statements have been identified".

List four (04) audit procedures that would identify subsequent events which may require adjustments or disclosure in the financial statements.

**(04 marks)**

- b) SLAuS 530 Audit Sampling and other Measure of Testing provide guidance on the use of audit sampling and other means of selecting items for testing when designing audit procedures to gather audit evidence.

Identify and explain THREE methods of selecting a sample

**(03 marks)**

- c) Royal Bakery (Pvt) Ltd. is in food business. It has a central bakery and 25 food outlets in Colombo city. In the Accounts Department there is an Accountant and four Accounts

Assistants. The outlets are open from 7.00 a.m. to 9.00 p.m. Every other day one of the Accounts Assistants visits the outlets before 1.00 p.m. collects cash from outlets and thereafter he visits the bank which closes by 3.00 p.m. and deposits the money. He takes the relevant deposit slips to office and enters the cash book. Bank reconciliations are prepared at the end of the month.

List two (02) important weaknesses in the internal control system, relating to sales & cash collection of Royal Bakery (Pvt) Ltd and Briefly State the steps to be taken to improve the internal control system.

**(05 marks)**

- d) You are a member of the team auditing the financial statements of PC World (Pvt) Ltd. for the year ended 31<sup>st</sup> December 2012. The company operates several outlets island wide that sell laptops and accessories. Additionally, the company also distributes the laptops to other retailers as well. Introduction of laptops with new technology during the financial year 2012 has caused the company to purchase new laptops as majority of the customers want to purchase laptops with the new technology. The laptops with the older technology are being offered to customers for sale with significant discounts. Based on the above information, identify two (02) areas that require special attention during the audit. You have to justify why these areas require special attention.

**(05 marks)**

- e) Name two (02) who cannot be appointed as an auditor of a company as per Section 157 (3) of the Companies Act No. 07 of 2007.

**(02 marks)**

**(Total Marks 19)**