

# UNIVERSITY OF COLOMBO, SRI LANKA

## FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration (Level-II, Semester-V) Examination – June, 2017

### **BEC 2306 - Auditing**

**Three (03) Hours**

Answer **Five (05)** questions in all, selecting **Three (03)** questions from **Part I** and **Two (02)** questions from **Part II**

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### **PART I**

1. i. You are an Internal Auditor of Royal Lanka Ltd and the Chief Executive Officer of the company requests you to assist with the following tasks:
- Performing monthly bank reconciliations on the company's bank account.
  - Evaluating the adequacy and effectiveness of controls in sales, receivables and cash receiving cycle.
  - Performing inventory counts for each month as a part of the company's internal control over its perpetual inventory.
  - Conducting a review analysis to identify to which extent the Marketing Department complies with the policy and procedures laid down by the company.
  - Designing a risk management process.

Briefly explain the suitability of performing the above tasks as an Internal Auditor of Royal Lanka Ltd.

(10 Marks)

- ii. Briefly explain the circumstances where sending a new audit engagement letter to the client is necessary.

(10 Marks)

**(Total 20 marks)**

2. i. State components of the audit strategy.

(02 Marks)

ii. Briefly explain the types of audit risk.

(06 Marks)

iii. 'We have audited the accompanying balance sheet of the ABC Company as of March 31<sup>st</sup> 2016 and the related statements of income, and cash flows for the year then ended (the reference can be by page numbers). Preparation of these financial statements is the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit...'

Above statement is a part of an audit report extracted from an annual report. Using the above statement discuss the content of an audit report.

(12 Marks)

**(Total 20 marks)**

3. i. State the services provided by an internal auditor.

(03 Marks)

ii. Write five (05) documents referred by auditors in auditing credit purchases.

(05 Marks)

iii. 'A Code of Ethics is a comprehensive statement of the values and principles which should guide daily works of auditors.' Comment on this statement, emphasizing the fundamental principles of ethics which should be followed by professional auditors.

(12 Marks)

**(Total 20 marks)**

4. i. State the content of an audit engagement letter.

(05 Marks)

ii. 'The **Enron scandal** revealed in October 2001 eventually led to the bankruptcy of the Enron Corporation, an American energy company based in Houston, Texas. Also it headed to the dissolution of Arthur Andersen, which was one of the five largest audit and accountancy

partnerships in the world. In addition to being the largest bankruptcy reorganization in American history at that time, Enron was cited as the biggest audit failure.'

Elaborate the reasons caused to this audit failure and the ethics that have been breached by the auditors.

(15 Marks)

**(Total 20 marks)**

## PART II

5. i. State the Sri Lanka Auditing Standards relating to audit report and audit opinion.  
(03 Marks)

ii. What are the qualifications required to become an auditor of a Private Limited Liability Company?  
(06 Marks)

iii. Explain the matters implied from the Title of Audit Report.  
(04 Marks)

iv. Discuss the auditor's Third-party Liability in the light of the decided cases.  
(07 Marks)

**(Total 20 marks)**

6. i. Write the legal definition of 'Company'.  
(03 Marks)

ii. State the types of limited companies.  
(04 Marks)

iii. Explain two (02) grounds which permit an auditor to express an unmodified opinion.  
(06 Marks)

iv. State the legal provisions relating to appointment, removal and deciding a remuneration of an auditor.  
(07 Marks)

**(Total 20 marks)**

7. i. Briefly explain the types of modified opinions.

(07 Marks)

ii. 'Internal control system of an organization provides only a reasonable assurance regarding the effectiveness of achieving organization's intended objectives'. Elaborate on this statement.

(13 Marks)

**(Total 20 marks)**