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**UNIVERSITY OF RUHUNA****FACULTY OF MANAGEMENT AND FINANCE****Bachelor of Business Administration Degree Programme 3000 Level****Semester II Examination (April 2021)****Academic Year 2020/2021****ACC 32103 – Audit and Assurance****Duration: Three hours****The Question Paper contains 05 questions****Answer all questions**

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**01.****Answer the questions A to D of question No. 01 by studying the short case given below;**

Mr. Jayasumana is the cashier of Astra Zenika Ltd, a private pawning company located in Pettah, Sri Lanka. Mr. Jayasumana is a middle-aged person with a dominant personality who has been with the company for nearly ten years, and he is one of its most trusted employees. The company opens at 08.30 a.m. and closes at 04.30 p.m. However, the company is open for pawning transactions from 09.00 a.m. to 03.00 p.m. only. The company has a practice of depositing the daily cash balance (except Rs. 500,000 for the following day transactions) in a private bank. The cashier prepares the deposit slip, goes to the bank, and deposits daily around 3.15 p.m. The remaining balance (Rs. 500,000) was kept under the custody of the Managing Director in the past. However, due to the confidence kept on the cashier, that balance is kept in the Mr. Jayasumana's drawer for last few years. As a practice, he leaves the company at last around 6.30 p.m. after keeping all the keys at the security unit.

Most of the wholesale transactions occur at night in the Pettah market and the intermediaries earn lots of money from buying & selling transactions. Further, they used to take daily loan facilities from informal money lenders at very higher daily interest rates, like 10% and 15%. Generally, these intermediaries get loans at night and settle them early in the following morning with the related interests.

One day, when the auditors were having their lunch, a set of employees came and informed that they are curious about the wealth of the cashier since he has become rich withing a very shorter period. Further, they have seen that Mr. Jayasumana lends some money to those intermediaries in the Pettah market. One day, the auditors came to the office around 7.00 a.m. with the managing director and found that the money was not available in the cashier's drawer. Then, the management conducted an investigation and was able to reveal that Mr. Jayasumana takes the remaining cash (Rs. 500,000) from the drawer, lends it to the intermediaries at night (at a daily rate of 05% ), collects back it in the following morning and finally keeps it in the drawer carefully.

A. Identify six (06) unacceptable bad practices occurred in Astra Zenika Ltd. (04 Marks)

B. What are the internal control procedures which you propose to establish in order to prevent these kinds of bad practices in the company? (04 Marks)

C. During the inspection, Mr. Jayasumana argued that "I did not harm to the company. I didn't steal money from the company. Further, I didn't make any loss to the company. Hence, I haven't done any fraudulent activity in this regard". Do you agree with Mr. Jayasumana? Justify your opinion. (04 Marks)

D. State the three significant factors that should be highly considered for a successful physical verification of "Cash in hand" in a bank where there are several cash counters? (02 Marks)

(Total Marks 14)

02.

A. What are the different types of audit opinions that an auditor can express in different circumstances when he/ she wishes to modify his/ her report on financial statements?

State the different circumstances in which the different types of audit opinions may be expressed.

(05 Marks)

B. Assume that you are working as an audit senior of an audit firm and several junior audit trainees are working under your supervision. You have advised them to perform the following audit procedures during an audit, and they are seeking clarifications for those procedures from you.

- i. Close all the cash counters and verify cash without giving a prior notice
- ii. Physically verify all the Property, Plant and Equipment listed in the fixed assets register without selecting a sample of them.
- iii. Check unrealized deposits shown in the year-end bank reconciliation with the bank statements in the subsequent months.
- iv. Verify the ownership of the lands with the "Title Extracts" that should be taken from the Land Registrar office.

You are required to clarify the reason/s for performing each of the above audit procedures to your Junior audit trainees.

(05 Marks)

C. Covishield Ltd. is a company engaged in producing vaccines in Colombo. The fire that took place in February 2021 caused extensive damages to the company, including the Accounting division of the company. The security unit was unable to extinguish the fire in time. Consequently, 90% of all records of the company including supporting documents were completely destroyed. Further, it was found that the company does not have any backup procedures.

State the most suitable type of audit opinion that will be issued on the financial statements of Covishield Ltd. for the year ended 31<sup>st</sup> March 2021, assuming that you are the auditor of Covishield Ltd.

(04 Marks)

(Total Marks 14)

03.

A. Distinguish between Absolute and Reasonable Assurance. What are the reasons for providing a reasonable assurance instead of an absolute assurance by the auditors regarding the Audits?

(05 Marks)

- B. "A practitioner accepts an assurance engagement only where the practitioner's preliminary knowledge of the engagement satisfies some of the conditions or circumstances".

Briefly explain the meaning of the "assurance engagement" and discuss the conditions or circumstances in which the practitioner should be satisfied when accepting an assurance engagement.

(05 Marks)

- C. What are the main rights and liabilities of an Auditor? Briefly explain how an auditor could minimize his / her liabilities when fulfilling a professional engagement.

(04 Marks)

(Total Marks 14)

04.

- A. **SLAuS 570: Going Concern**, states that "... an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations"

Briefly explain the meaning of the term "Foreseeable Future" and evaluate the importance of going concern assumption for the preparation of financial statements by paying special attention to the basis of recording Assets and Liabilities

(05 Marks)

- B. What is meant by the term "Audit Engagement Letter"? State the factors that influence the decision whether to send a separate engagement letter to the component, when the auditor of a parent entity is also the auditor of its subsidiary, branch, or division (component)?

(05 Marks)

- C. Briefly describe the meaning of the term "Confidentiality". Discuss the ways in which the confidentiality should be protected by an auditor regarding the client's business information acquired during the course of professional work according to the Code of Ethics (2016) issued by the Institute of Chartered Accountants of Sri Lanka.

( 04 Marks)

(Total Marks 14)

05.

A. SLAuS 300: Planning an Audit of Financial Statements states that “The audit plan is more detailed than the overall audit strategy and includes the nature, timing and extent of audit procedures to be performed by engagement team members in order to obtain sufficient and appropriate audit evidence to reduce audit risk to an acceptably low level”.

Briefly explain the meaning of underlined terms of the above statement.

(05 Marks)

B. How do you define an Internal Control System? Discuss how the internal control systems have been affected by the limitations inherent in all internal control systems.

(05 Marks)

C. Distinguish the terms “Preventive, Detective and Corrective Controls” and give two examples for each term.

(04 Marks)

(Total Marks 14)

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