



UNIVERSITY OF RUHUNA
FACULTY OF MANAGEMENT AND FINANCE

No. of Pages : 04
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Total Marks : 70

105

BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE

3000 LEVEL SECOND SEMESTER END EXAMINATION - FEB/MAR 2023

Three Hours

ACC 32103 - Audit and Assurance

Academic Year 2021/2022

Instructions

- Answer only five (05) questions including Question number One (01)

Question 01 (Compulsory)

ABM Manufacturing Pvt Ltd is a large apparel manufacturing company which employs more than 2500 employees. The company has a decentralized management structure which consists of several departments such as Operations Department, Human Resources Department, Marketing Department, Procurement Department, Finance Department and Research and Development Department. The Finance Department has a Finance Manager named Mrs. Sammani who is also a member of the Institute of Chartered Accountants of Sri Lanka. She has provided the task of doing the costing calculation of one of their major pieces of items to be sold to a European Customer. During a gathering of her school friends Mrs. Sammani met one of her school friends who is also working for a leading apparel manufacturer who is a direct competitor of ABM Manufacturing Pvt Ltd. Mrs. Sammani's friend continuously asked her about the costing of the new item. Mrs. Sammani was in a situation which she couldn't decide whether to disclose that information or not. After few days of this incident, The Export Development Board visited the ABM Manufacturing Pvt Ltd to have a discussion with its management regarding improving cost structures of their items to derive better profit margins from their exports. The Board required Mrs. Sammani to reveal the costing details of the recent item she completed the costing.

After the above incidents the year end audit period of the ABM Manufacturing Pvt Ltd was reached. They handed over their external audit to TY Partners Audit Firm. Mr. Nipuna is the partner who was responsible for ABM Manufacturing Pvt Ltd audit. During the audit he has identified that there was a Rs. 1Mn payment to an overseas supplier who supplies zippers for apparel items. Due to the suspicious nature of this payment Mr. Nipuna has searched for more information.

This has led to the finding that there was no such real supplier under that name registered in that country which the payment had made for. Mr. Nipuna explained the management about this incident and management inquired about the risk assessment procedures and related activities he had implemented to identify this type of an incident.

Answer the following questions considering the above-mentioned case study.

(A) How can you describe the situation which Mrs. Sammani's friend continuously asked her about the costing of the new item. And Mrs. Sammani was in a situation which she couldn't decide whether to disclose that information or not? Provide three (03) similar examples.

(04 marks)

(B) If Mrs. Sammani revealed the costing information of the item to her friend, briefly explain the code of ethics she breaches.

(03 marks)

(C) "Mrs. Sammani is breaching the same code of ethics mentioned in part (B) if she reveals the costing information to Export Development Board."

Do you agree with this statement? Justify your answer.

(04 marks)

(D) Describe the event identified by Mr. Nipuna in relation to theory along with two (02) other examples of the same category.

(03 marks)

(E) Explain the responsibility of ABM Manufacturing Pvt Limited's management in preventing acts such as mentioned in the case.

(04 marks)

(F) Describe two (02) of the risk assessment procedures and related activities Mr. Nipuna had implemented to identify this type of incidents.

(04 marks)

(Total Marks 22)

Question 02

- (A) Mr. Nimal is the partner of an audit firm which was given an audit of a larger apparel company year end audit. Since their audit firm was doing audits for this company during past few years Mr. Nimal stated that doing an Audit Plan is not necessary.

Do you agree with his statement? Justify your answer.

(04 marks)

- (B) In Audit Planning, establishing an Overall Audit Strategy is an important activity. List four (04) tasks to be followed by the auditor in establishing an overall audit strategy.

(04 marks)

- (C) Briefly explain how determining nature, timing and extent of resources is done in Audit Planning.

(04 marks)

(Total Marks 12)

Question 03

- (A) "Internal Auditing is an appraisal activity established within an entity as a service to the entity."

Briefly explain any four (04) duties of an Internal Auditor in the organization.

(04 marks)

- (B) "The Internal Auditor of an organization can always work with full independency".

Do you agree with this statement? Justify your answer stating relevant examples.

(05 marks)

- (C) The external auditor shall determine the internal auditor's work is relatable to conducting the audit. State three (03) factors that the external auditor would evaluate for the above purpose.

(03 marks)

(Total Marks 12)

Question 04

- (A) "With relation to Audit Evidences, when the assessed risks are high, the quantity of audit evidences required will be high."

Justify the above statement by explaining the interrelationship between the two main characteristics of audit evidences.

(04 marks)

Page 3 of 4



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(02)

(B) List out three (03) audit evidences used in the audit process.

(03 marks)

(C) There are several methods used for obtaining audit evidences. Describe three (03) of those methods along with related examples if any.

(05 marks)

(Total Marks 12)

Question 05

(A) In the Audit Finalization stage, there are several steps been followed. One of the steps include the review for contingent liabilities.

Briefly explain the audit procedures used for finding contingencies.

(04 marks)

(B) "Auditor's judgment about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial statements, affects the type of opinion to be expressed."

Justify this statement supporting your answer with suitable figures.

(04 marks)

(C) Explain the instances where an auditor will provide a modified opinion and an unmodified opinion.

(04 marks)

(Total Marks 12)

Question 06

Write short notes on any four (04) of the following. You may use examples where necessary.

- I. Professional Skepticism
- II. Internal Control Objectives
- III. Auditor's Expert
- IV. Non – assurance Services
- V. Positive Method in debtor confirmation
- VI. Materiality

(03 marks each)

(Total Marks 12)
