

**THE OPEN UNIVERSITY OF SRI LANKA
FACULTY OF MANAGEMENT STUDIES
BACHELOR OF MANAGEMENT STUDIES HONOURS IN
ACCOUNTING AND FINANCE
SEMESTER 1
FINAL EXAMINATION - 2026
AFU6424 AUDITING AND ASSURANCE SERVICES
DURATION - 03 HOURS**



Date : 14.06.2026

Time: 1.30pm – 4.30pm

Instructions:

- Answer **Question No. 1 in Part A** and **any three (03) questions in Part B**.
- Numbering of the answers in your answer script should follow the numbers assigned to the questions in the paper.
- Illegible hand writing is liable to loose marks.
- Use of non-programmable calculators are allowed.

Part A

Question No. 1 (Compulsory Question)

ABC Retail (Pvt) Ltd. is a medium-sized company engaged in the importation, distribution, and retail sale of smartphones across Sri Lanka. The company operates through a network of retail outlets located in major cities, while also maintaining an online sales platform to expand its market reach. In addition to its core operations, the company operates with several subsidiaries engaged in related business activities, which include logistics and warehousing services, repair and maintenance services. Over the past five years, the company has experienced steady business growth driven by rising consumer demand for smartphones, the expansion of its distribution network, and strategic partnerships with several internationally recognized brands. As at 31st March 2026, the company reported an annual turnover exceeding Rs. 1.5 billion and employed more than 200 staff members across its operational and administrative divisions.

ABC Retail (Pvt) Ltd. maintains a formal accounting system and prepares annual financial statements in accordance with the requirements of Accounting Standards and other applicable corporate reporting regulations. The financial statements for the year ended 31st March 2026 were prepared under the supervision of the Finance Manager and approved by the Board of Directors before the external audit. In line with statutory requirements and the company's corporate governance practices, the Board of Directors appointed Jayarathna & Co., a firm of Chartered Accountants, as the independent external auditors of the company. Following the completion of audit procedures, the audit senior of the engagement team prepared a draft audit report for review by the engagement partner before its final issuance. The draft auditor's report prepared by the audit senior is provided below.

To the Shareholders of ABC Retail (Pvt) Ltd

Report on Audit of Financial Statements

We have obtained the accompanying financial statements of ABC Retail (Pvt) Ltd which comprise the Statement of Financial Position as at 31st March 2026, and the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Accounting Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal activities relevant to the preparation and fair presentation of financial statements that are free from misstatement, whether due to fraud or error; selecting and applying appropriate accounting standards; and making accounting judgments that are reasonable in the circumstances.

Auditor's Responsibility for the Financial Statements

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Accounting Standards. Those standards require that we plan and perform the audit to obtain assurance whether the financial statements are free from misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

Jayarathna & Co.
31st March, 2026
Colombo.

You, as the engagement partner of Jayarathna & Co., are required to perform the following.

- (a) Explain the type of assurance that the auditor should provide on the above scenario.
(05 Marks)
- (b) Critically evaluate the content in the draft audit report with reference to the scenario provided, and discuss five (05) weaknesses in accordance with SLAuS 700 (Revised).
(15 Marks)
- (c) Prepare the auditor's report that is appropriate for the circumstances of ABC Retail (Pvt) Ltd.
(20 Marks)

(Total: 40 Marks)

Part B

Question No. 2

- (a) Explain the importance of “audit evidence” in the context of an audit of financial statements. (04 Marks)
 - (b) Discuss four (04) types of audit procedures used by auditors to obtain audit evidence in an audit of financial statements, providing appropriate examples for each. (08 Marks)
 - (c) Discuss four (04) audit procedures applicable in the audit of trade receivables. (08 Marks)
- (Total: 20 Marks)**

Question No. 3

- (a) Explain the difference between “Overall Audit Strategy” and “Detailed Audit Plan” in accordance with SLAuS 300. (06 Marks)
- (b) “In the current context of audit of financial statements, the risk-based approach is used throughout the entire auditing process.”
 - (i) Explain the meaning of “risk-based approach”.
 - (ii) Discuss the importance of assessing risks at the planning stage.
 - (iii) Evaluate why revenue recognition is considered a high-risk area of the audit of financial statements of a business operating in the construction industry. (14 Marks)

(Total: 20 Marks)

Question No. 4

- (a) What is meant by “Internal Control System” in an organization? Explain. (02 Marks)
 - (b) What are the objectives of an internal control system? Discuss. (04 Marks)
 - (c) Explain three (03) possible inherent limitations of any internal control system. (06 Marks)
 - (d) Chemilux Ltd. is a public limited liability company operating in the construction industry. The company has appointed PQ & Co. as its external auditor for the financial year ending 31st March 2026. The Board of Directors believes that the external auditor is responsible for introducing and implementing appropriate internal control systems within the company.
 You, as the engagement partner of this audit, are required to critically evaluate the validity of the Board’s view and write an explanation to the Board of Directors of the company. (08 Marks)
- (Total: 20 Marks)**

Question No. 05

Explain briefly the following;

- (a) Financial statement assertions
- (b) Permanent audit file and current audit file
- (c) Sufficient and appropriate audit evidence
- (d) Letter of engagement
- (e) Tests of controls and substantive audit procedures

(04 Marks each)
(Total: 20 Marks)

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