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Even Semester End Term Examination, May / June 2026		
Date: 15/05/2026		**Time: 09.30 AM - 12.30 PM**
Course Code: COM2059	**Course Name: Audit and Assurance**	
Semester: Fourth Semester	**Max. Marks: 100**	**Weightage: 50%**

CO - Levels	CO1	CO2	CO3	CO4	CO5
Marks	**36**	**36**	**36**	**36**	**36**

Part A: Answer Following Questions. 20 M

Qn.No	Questions	M	CO	BT
1	A company has independent directors but no audit committee. What key corporate governance mechanism is missing?	2	CO1	BT2
2	An independent practitioner is engaged to examine a company's internal control system and provides a high level of confidence in the report issued to users. What is meant by a reasonable assurance engagement? State any two characteristics.	2	CO1	BT2
3	Investors often believe that auditors are responsible for detecting all fraud and guaranteeing the financial stability of a company, whereas auditors perform their duties within defined professional standards and limitations. What is meant by the expectation gap in auditing? State any two reasons for its existence.	2	CO2	BT2
4	A technology company operates in a rapidly changing industry with complex transactions and frequent introduction of new products, increasing the likelihood of errors in financial reporting. What is inherent risk in auditing? State any two factors that may increase inherent risk.	2	CO2	BT2
5	A company shows fluctuating profits but stable cash flows. Which analytical procedure insight should the auditor focus on?	2	CO3	BT2
6	The auditor tests only high-value transactions instead of random sampling. Is this statistical or non-statistical sampling?	2	CO3	BT2
7	An auditor verifies inventory through physical inspection. Which type of audit evidence is obtained?	2	CO4	BT2
8	The auditor performs procedures to check if controls are working effectively. What type of audit test is this?	2	CO4	BT2

9	An auditor issues a qualified opinion due to limited scope. What causes a modified audit opinion?	2	CO5	BT2
10	The auditor highlights a matter without modifying the opinion. What is this paragraph called?	2	CO5	BT2

Part B: Answer Any 1 Following Questions. 16 M

Qn.No	Questions	M	CO	BT
11.a	A startup hires an auditor to “certify” that its financial projections are reliable for investors. The auditor reviews assumptions but does not verify underlying data. The management claims this is an audit engagement. Identify the type of assurance engagement involved and evaluate whether it qualifies as an external audit. Justify your answer.	6	CO1	BT3
11.b	An auditor resigns midway through an engagement citing “professional differences” but does not disclose reasons to shareholders. Later, financial irregularities emerge. Discuss the regulatory and ethical implications of the auditor’s resignation and whether the auditor fulfilled their responsibilities.	10	CO1	BT3
12.a	A company has an independent board and audit committee, but internal audit reports highlighting fraud risks are ignored by management. Evaluate whether this company demonstrates good corporate governance. What role should auditors play in such a situation?	6	CO1	BT3
12.b	An auditor accepts expensive gifts from a client during an ongoing audit but claims it does not affect their judgment. Analyze the threats to professional ethics in this situation and suggest safeguards to mitigate them.	10	CO1	BT3

Part C: Answer Any 1 Following Questions. 16 M

Qn.No	Questions	M	CO	BT
13.a	A listed company appoints an audit firm that has been providing consulting, tax advisory, and internal control design services for the past five years. During the audit, the firm identifies weaknesses in the same controls it had designed. Additionally, the auditor receives performance-based incentives linked to client retention. Critically examine the independence and ethical issues in this case. Evaluate the threats involved and recommend safeguards in line with professional ethics and audit regulations.	6	CO2	BT3
13.b	On 1 July 2025, you are an audit senior at JPR Edwards & Co, recently appointed as auditor of Hook Co after a successful tender. Hook Co manufactures electrical goods and relies heavily on one major customer that generates 70% of its revenue. Microchips are sourced from overseas suppliers, and work-in-progress is expected to be material at year end. During the year, Hook Co invested $1 million in developing a smartphone application, though its launch has been delayed due to technical issues. The company is also	10	CO2	BT3

	planning a listing on the London Stock Exchange later in the year. Identify and explain the key audit risks you would consider when planning the audit of Hook Co for the year ending 30 September 2025			
14.a	You are an audit senior at KLM & Co, currently preparing the audit plan for Orion Devices Ltd, a recently listed electronics manufacturer. The company assembles smart home devices using components sourced from both local and overseas suppliers. Inventory and work-in-progress balances are significant at year end. During the year, the company capitalised substantial research and development costs for a new product that is yet to be launched. It has also expanded rapidly into new overseas markets. Outline the key matters that should be included in the audit plan for Orion Devices Ltd.	6	CO2	BT3
14.b	You are a partner at SVR & Co, recently approached by Apex Retail Ltd, a fast-growing chain of lifestyle stores, to act as its external auditor. This is the first time the company is appointing a professional audit firm, as earlier the accounts were handled internally. The directors are keen to begin the audit immediately and have verbally agreed on the audit fee. However, no formal documentation outlining the scope of work, responsibilities, or reporting framework has yet been prepared. Explain the purpose and key contents of an engagement letter that should be issued to Apex Retail Ltd before commencing the audit.	10	CO2	BT3

Part D: Answer Any 1 Following Questions. 16 M

Qn.No	Questions	M	CO	BT
15.a	A company relies entirely on verbal explanations of internal controls without documentation or flowcharts. Evaluate the effectiveness of such internal control systems and suggest improvements.	6	CO3	BT3
15.b	An auditor performs only substantive procedures without testing internal controls. Differentiate between test of controls and substantive procedures and evaluate the implications of this approach.	10	CO3	BT3
16.a	A company has thousands of transactions, but the auditor selects samples based on convenience rather than statistical methods. Discuss the principles of audit sampling and evaluate the risks of non-statistical sampling.	6	CO3	BT3
16.b	Receivables are verified using only customer confirmations, but several responses are not received. Explain alternative procedures that should be performed and assess audit risk.	10	CO3	BT3

Part E: Answer Any 1 Following Questions. 16 M

Qn.No	Questions	M	CO	BT
17.a	A not-for-profit organization maintains incomplete records, and the auditor struggles to obtain sufficient evidence. Discuss audit	6	CO4	BT3

	techniques suitable for such organizations.			
17.b	The auditor uses data analytics tools to analyze entire datasets but does not validate the accuracy of input data or understand the algorithms used. Discuss the role of automated tools in auditing. Evaluate their advantages, limitations, and the auditor's responsibility when using such tools.	10	CO4	BT3
18.a	An auditor relies on management representations for verifying major balances such as inventory and receivables. Physical verification is not conducted, and third-party confirmations are limited. Evaluate the sufficiency and appropriateness of audit evidence in this case. Discuss alternative audit procedures that should be applied.	6	CO4	BT3
18.b	An auditor relies solely on management representations for verifying inventory balances without physical verification. Assess the reliability of audit evidence in this situation and suggest appropriate procedures.	10	CO4	BT3

Part F: Answer Any 1 Following Questions. 16 M

Qn.No	Questions	M	CO	BT
19.a	The auditor completes all procedures but skips the final review due to time constraints. Discuss the significance of final review in the audit process.	6	CO5	BT3
19.b	An auditor issues a clean report despite material misstatements identified during the audit. Evaluate the types of audit opinions and whether the auditor's action is justified.	10	CO5	BT3
20.a	Management refuses to provide written representations for certain transactions. Analyze the importance of written representations and the auditor's course of action.	6	CO5	BT3
20.b	A company shows continuous losses, but management insists it is a going concern without evidence. Evaluate the indicators of going concern issues and the auditor's responsibilities.	10	CO5	BT3