

EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT
DEPARTMENT OF COMMERCE



Third Year Second Semester Examination in business Administration / Commerce/
Specialization in Human Resource Management/ Specialization in Marketing
Management 2007/ 2008 (March/ April 2009)

DAF 3223 Advanced Auditing

Answer all questions.

Time: 3 Hours

1. Lanka plastic Ltd is engaged in the manufacture and distribution of plastic furniture. The company's products are sold through a net work of sales centres. The summarised profit and loss account for the year ended 31st March 2008 and Balance sheet as at that date together with figures to the previous year are shown below.

Profit and loss account for the year ended 31st March

	2008	2007
	Rs '000	Rs '000
Sales	96,000	56,000
Cost of sales	58,000	38,000
	38,000	18,000
Other income	900	400
	38,900	18,400
Administration Expenses	3,900	4,800
Selling expenses	8,000	4,000
Finance expenses	9,000	2,000
Depreciation	6,000	4,400
Profit before tax	10,000	3,200
Taxation	1,800	1,200
	8,200	2,000

Balance sheet as at 31st March

Share capital	8,000	8,000
Reserve	32,000	24,000
	40,000	32,000
Fixed Assets	27,000	27,700
Current Assets		
Stock in Trade	19,000	8,900
Trade debtors	14,300	6,000
Cash at Bank	-	1,800
	33,300	16,700
Current Liabilities		
Trade Creditors	13,000	6,400
Taxation	1,400	3,200
Bank overdraft	2,200	-
Bank loan	3,700	2,800
	20,300	12,400
Net Current Assets	13,000	4,300
Total net Assets	40,000	32,000

a) Perform an **analytical review and identify six (06) areas/ items** that require special audit attention.

(09 Marks)

b) List five (05) items which do not conform to the manner of presentation or disclosure requirements proscribed by the **companies Act and or Sri Lanka Accounting standards.**

(7 ½ Marks)

c) State the Auditing Standard (SLAus. 16) relating to **analytical procedure.**

(3 ½ Marks)

(Total 20 Marks)

2. a) Briefly explain auditing standard (SLAus24) relating to considering the **work of Internal auditing.**

(02 Marks)

b) Define the term **Internal auditing.**

(03 Marks)

c) State **scope and objectives of Internal auditing.**

(05 Marks)

d) What are the factors taken into consideration when external auditor perform a **preliminary assessment of the Internal audit function**

(04 Marks)

e) What are the audit procedures to be carried out regarding **attendance at physical inventory counts** as specified in the SLAus- 14 under additional consideration for specific items?

(06 Marks)

(Total 20 Marks)

3. a) State four (04) objectives of an **internal control system.**

(04 Marks)

b) Explain the different **methods for recording of accounting and control systems.**

(03 Marks)

c) **“Control environment is the overall attitude awareness and action of directives and manages regarding internal controls and their information in the entity”**

Explain the aspects of **control environment.**

(05 Marks)

d) Explain the limitation of **accounting and control system.**

(02 Marks)

e) Define the following terms

(I) Audit risk

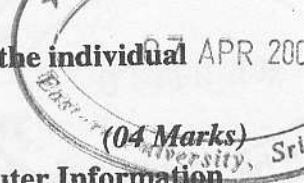
(II) Inherent risk

(III) Control risk

(IV) Detection risk

(4x1 ½ = 06 Marks)

(Total 20 Marks)



4. a) What are the **Quality control procedures** should implement to the **individual audit**?
(04 Marks)
- b) What are the skill and competent auditor should have in a **Computer Information System environment (CIS)**?
(05 Marks)
- c) Briefly explain the nature of risk and internal control characteristic in computer information system (CIS) environment.
(04 Marks)
- d) Explain the meaning of **sampling** in relation to an audit
(02 Marks)
- e) (i) What are the aspects to be considered by the auditor when **designing an audit samples**?
(02 Marks)
- (ii) List three (03) **selection methods** of samples commonly used the auditor.
(03 Marks)
- (Total 20 Marks)*

5. a) Briefly explain how **parliamentary control is exercising over public finance**.
(06 Marks)
- b) Briefly discuss the **duties and powers of the Auditor General of Sri Lanka** as mentioned in the constitution of Sri Lanka.
(06Marks)
- c) Write short notes on the following
- (i) Committee on public accounts (COPA)
 - (ii) Internal control questionnaires (ICQs)
 - (iii) Flow chart
 - (iv) Surcharge power
- (4x2 = 08 Marks)*
(Total 20 Marks)