



## SOUTH EASTERN UNIVERSITY OF SRI LANKA

THIRD YEAR EXAMINATION IN BACHELOR OF BUSINESS ADMINISTRATION /  
COMMERCE (EXTERNAL) - 2009 / 2010 HELD IN DECEMBER - 2010

### BBA / COM 37 (I) – AUDITING

Answer **all** questions.

Time: 03 Hours

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01. You are a senior auditor of a firm of Chartered Accountants. Currently you are engaged in the audit of a public limited liability company, previously audited by another member of the Institute.
- (a) Basically **three parties** are involved in an audit. Who are they? (02Markes)
  - (b) List the person **qualified and disqualified** to be appointed as auditor under the provision of Company Act and briefly state the reasons for a disqualification being imposed on these persons. (03Markes)
  - (c) Explain the ethical responsibility of **Confidentiality** of an auditor, in relation to the client's information obtained during the course of an audit. (03Markes)
  - (d) Give an example for **violation of confidentiality** from the above statement. (04Markes)
  - (e) State Five (05) instances where an auditor can **disclose client's information** obtained during the audit. (04Markes)
- (Total 16 Marks)
02. (a) List four (04) **control objectives** of a credit sales system. (04 Marks)
- (b) List three (03) **substantive analytical procedures** you should perform on the salary and wages system. For each procedure, state your expectation of the result of that procedure. (04 Marks)

(c) List four (04) **limitation of internal** control system (04 Marks)

(d) As you are an external auditor of a company, write a **management letter** to the directors in respect of the possible weakness that you can identify in the payment of salary and wages and the recommendation **to alleviate** each weakness. (04 Marks)

(Total 16 Marks)

03. (i) Auditor seeks evidences from various sources available to the auditors during the audit. Auditor can generate some sources of evidence under their own control, while some evidences can be obtained from the management of the company and from third parties. However each of these sources presents the auditor with differing considerations as to the quality of the evidence so produced.

(a) List two (02) examples in each **category of evidences** generated by those three parties during the audit. (04 Marks)

(b) Explain **reliable** evidence and **relevant** with examples. (04 Marks)

(ii) You are an in-Charge of an auditing firm, of manufacturing company which is supplying computers on short lead times to customers. They have their own warehouse. Your manager has asked you to gather sufficient knowledge of the business.

(a) List four (04) sources you would use **to obtain knowledge business**. (04 Marks)

(b) Identify the **important audit area** that will have a significant impact on the balance sheet. (04 Marks)

(Total 16 Marks)

04. You are a member of the audit team performing the year end audit of ABC Ltd. You have been asked to explain the different type of modified audit report issued by an Auditor

Explain the circumstances, which would give raise to each of the following modified **audit reports**.

- (a) Emphasis of matter
- (b) Qualified opinion
- (c) Disclaimer of opinion
- (d) Adverse opinion

(08 Marks)

05. ABC Ltd is a manufacturing company carrying significant amount of Inventories and Trade Debtors in its Balance Sheet at 30 June 2010

The management is unable to provide you adequate supporting schedules for these two significant Balance Sheet items. Therefore, you unable to perform sufficient audit procedures to verify these balances, during your audit for the year ended 30 June 2010. It was noted by you that total of these balance sheet items would account for more that 50% of the total assets.

In this scenario what type of **audit opinion** would you recommend? (03 Marks)

Draft **relevant opinion paragraphs** you would include in your modified audit report for the member of ABC Ltd. (05 Marks)

(Total 16 Marks)

The senior auditor asked you to carry out physical verification of assets of a limited liability company for the year ended 31 March 2010.

(a) State in point form the aspects you would consider examine in verifying

- Fixed assets and Current assets
- Revenue and expenditure

(04 Marks)

(b) To complete the observation of physical verification of inventory effectively, the auditor is required to carry out certain procedures (I) before, (II) During and (III) after the observation of physical inventory verification. Identify three (03) procedures that relate to each stage. (04 Marks)

(c) Identify four (04) significant points that will be used by you in the selection of the **test of sample** (04 Marks)

(d) Indicate two (02) methods that would used by you to identify any **obsolete or non-moving** items for which provisions should be made by the client. (04 Marks)

(Total 16 Marks)

06. Explain the following terms

(a) Audit and review

(b) Cut off procedures and Analytical review procedures

(c) Permanent file and temporary file

(d) Complain test and internal control test

(e) Inherent risk and internal control risk

(4 x 5 = 20 Marks)

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