

UNIVERSITY OF COLOMBO, SRI LANKA

FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration (Level II - Semester VI) Examination – January, 2018

ACT 2207- Advanced Auditing

Two (02) Hours

Answer Four (04) questions in all selecting any Two (02) questions from PART A and all questions of PART B

PART A

1. i. State Three (03) categories classified in accumulation of misstatements.
(04 Marks)
- ii. “The reliability of a component is a function of control that acts on the component”. Explain the types of control use in a computerized information system environment of an organization.
(08 Marks)
- iii. ‘Environmental auditing is an essential environmental management tool to measure the effects of certain activities on the environment against a set of criteria or standards. Most of the organizations trend towards this assessment as a voluntary disclosure.’
Comment on the above statement emphasizing the reasons for performing an environmental audit in an organization.
(13 Marks)
- (Total 25 marks)**
2. i. State the types of confirmation request.
(02 Marks)
- ii. Miami Automobile company specializes in manufacturing engine parts for motor cars and the company has a diverse customer base; with seven significant customers. The financial year of the company was ended at 31st March 2017. During the year, a number of the company’s significant customers have experienced a fall in sales, and consequently they have purchased fewer items from Miami. As a result, Miami has paid a number of its suppliers later than

usual and some of them have withdrawn credit terms meaning the company must pay cash on delivery. One of Miami's main supplier is threatening legal action to recover the sums owing. Consequently, the increased level of payables, the company's current ratio has fallen below 1 to 0.9 for the first time. Miami has a loan of 2 million rupees which is due for repayment in full by 31st March 2018. The finance director has asked the audit manager whether there is a possible change in legislation which will result in one of Miami's top product lines becoming obsolete as it will not comply with the proposed law. The prepared cash flow forecasts do not reflect this possible event.

Based on the above information given, you are required to;

a. Explain Five (05) potential indicators that cast significant doubt on Miami Automobile company's going concern assumption.

(07 Marks)

b. Briefly describe the audit procedures which you would perform in assessing the going concern assumption of Miami Automobile Company .

(04 Marks)

iii. 'Internal audit function is an appraisal activity established as a service to the entity. Sri Lanka Auditing Standard (SLAuS) 610 – Using the work of internal auditors; deals with the external auditor's responsibilities if using the work of the internal audit function in obtaining audit evidences.'

Elaborate the factors determined by the external auditors to measure the adequacy of internal audit.

(12 Marks)

(Total 25 marks)

3. i. Briefly describe the situations where getting a written representation is appropriate.

(06 Marks)

ii. 'The audit committee should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintain an appropriate relationship with the company's auditors.'

Comment on the above statement emphasizing the role of the audit committee in an organization and the trends in audit committee reporting.

(19 Marks)

(Total 25 marks)

PART B

4. i. 'In terms of Articles 148 of the Constitution of the Democratic Socialist Republic of Sri Lanka the Parliament has full control over public Finance. Briefly explain how the following institutions help the Parliament to exercise control over public finance.

- a. Auditor General
- b. General Treasury
- c. COPE and PAC

(12 Marks)

ii. 'We are living in an era where the knowledge is the capital.' Explain the steps which could be adopted while conducting a knowledge audit.

(13 Marks)

(Total 25 Marks)

5. i. Explain the differences between attestation and assurance in auditing.

(10 Marks)

ii. Statutory Audit and Forensic audit are two different aspects of auditing. Discuss the difference between these two aspects of auditing.

(15 Marks)

(Total 25 marks)