

UNIVERSITY OF COLOMBO, SRI LANKA

FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration (Level II - Semester V) Examination – June 2017

HRM 2306/ INB 2306 – Auditing

Three (03) Hours

Answer any FIVE (05) Questions.

01. Ascom Ltd. was recently incorporated limited liability Company. The Directors have no knowledge about appointment of an Auditor to the company. They seek your advice as to how an Auditor be appointed to the Company on the following situations.

- a). Appointment of first auditor of the Company and Subsequent appointments.
- b). Qualifications of the Auditor.
- c). Disqualifications of the Auditor.
- d). Removal of an Auditor

(5x 4 =20 marks)

02. 1. SLAus requires the auditors to design and perform audit procedures that are appropriate in the circumstances for the purposes of obtaining sufficient appropriate audit evidence.

- a). State briefly how would you determine the sufficient and appropriate audit evidence.

(10 marks)

ii. SLAus requires auditors to consider the relevance and reliability of the information to be used as audit evidence when designing and performing audit procedures.

- a). State briefly how would you determine the quality and reliability of the audit evidence.

(10 marks)

(Total 20 marks)

03. i. In terms of the sect. 163(1) of the Companies Act. No. 07 of 2007 the auditor of a Company shall make a report to the shareholders of the financial statements audited by him. State the contents of the Auditors report.

(10 marks)

ii. State the circumstances under which an auditor needs to decide on the types of audit opinion to be expressed.

(10 marks)

(Total 20 marks)

4. The auditor needs to verify the balances existed as at the end of the financial year. Explain briefly how you would verify the following items in the financial statements.

- i. Motor Vehicles.
- ii. Stocks in Trade.
- iii. Trade Debtors.
- iv. Cash at Bank.
- v. Trade Creditors.

(Total 20 marks)

5. 1. What do you mean by the term "Internal Control". State the types of internal controls that exist in an organization.

(10 marks)

ii. Briefly explain the limitations of internal control system.

(10 marks)

(Total 20 marks)

6. i. The age analysis of Debtors as at 31.03. 2017 is given below. Company's credit period is 30 days.

<i>Name</i>	<i>Total (Rs.)</i>	<i>0-30 days (Rs.)</i>	<i>31-60 days (Rs.)</i>	<i>61-90 days (Rs.)</i>	<i>Over 90 days (Rs.)</i>	<i>91-120 days (Rs.)</i>
<i>R. & R Trading</i>	<i>175,000</i>	<i>100,000</i>	<i>65,000</i>			
<i>Alto Pharma</i>	<i>125,000</i>	<i>75,000</i>	<i>25,000</i>	<i>25,000</i>		
<i>Sameen Pharmacy</i>	<i>225,000</i>	<i>60,000</i>	<i>40,000</i>	<i>75,000</i>	<i>45,000</i>	<i>5,000</i>
<i>Amil Stores</i>	<i>150,000</i>	<i>120,000</i>	<i>20,000</i>	<i>10,000</i>		
<i>Debtors in Suspense</i>	<i>25,000</i>	<i>25,000</i>				
	<i>700,000</i>	<i>380,000</i>	<i>150,000</i>	<i>110,000</i>	<i>45,000</i>	<i>5,000</i>

You are required to:

- a) Identify areas that you need to pay special attention in the above age analysis. (03 marks)
- b) State why you need to pay special attention on these items and state whether there is any possibility of fraud or irregularity. (04 marks)
- c) State audit procedures you wish to carry out in verifying the above debtor's value. (03marks)

- ii. You are the audit senior responsible for the external audit of Amaas (Pvt) Ltd. You are given the following Bank reconciliation statement prepared by senior accounts assistant of the company as at 31st March 2017.

Bank Reconciliation Statement as at 31st March 2017

			Rs.	Rs.
<i>Balance as per Bank Book</i>				1,200,000
<i>Add : Cheques Issued But Not Presented</i>				
<i>Date</i>	<i>Cheque No.</i>			
12.10.2015	521315		150,000	
15.11.2016	625185		50,000	
28.01.2017	780120		75,000	
15.02.2017	800150		125,000	
18.03.2017	800217		50,000	450,000
				1,650,000
<i>Less : Deposits Not Realized</i>				
<i>Date</i>	<i>Cheque. No</i>	<i>Customer Name</i>		
15.03.2017	300180	Isira Perera	175,000	
20.03.2017	608219	Ameer Stores	50,000	
28.03.2017	Cash		75,000	
30.03.2017	Standing Order	Loan Installment	100,000	400,000
<i>Balance as per Bank Statement</i>				1,250,000

You are required to:

- a) Identify the areas that you need to pay special attention in the above Bank Reconciliation Statement.

(05 marks)

- b) State why you need to pay special attention on these items and state whether there is any possibility of fraud or irregularity.

(05 marks)

(Total 20 marks)
