

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



**Third Year Second Semester Examination in Commerce – 2005/2006**  
**DAF 3253(a) Auditing**

**Answer all questions.**

**Time: 2 Hours**

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1. a) Explain the Auditing Standard (SLAUS-10) relating to risk assessment and internal control. (04 Marks)
- b) Define the following terms
- (i) Audit risk
  - (ii) Inherent risk
  - (iii) Control risk
  - (iv) Detection risk
- (4x2=08 Marks)
- c) Explain briefly “internal control system” and its objectives (06 Marks)
- d) What are the factors contributed in the control environment. (04 Marks)
- e) State what are the specific control procedures established by the management to achieve the entity’s specific objectives. (03 Marks)
- (Total 25 Marks)**
2. a) What are the objectives of the quality control policies to be adopted by an audit firm? (05 Marks)
- b) What are the quality control procedures should implement to the individual audit (05 Marks)
- c) What are the skill and competence auditor should have in a computer information system environment. (CIS) (05 Marks)
- d) Briefly explain the nature of risk and Internal control characteristics in computer information system (CIS) environment. (06 Marks)
- e) Explain what is meant by computer assisted audit techniques (CAATs) (04 Marks)
- (Total 25 Marks)**

3. a) State audit procedures in relation to inquiry regarding litigation and claims as mentioned in the SLAUS – 14 – audit evidence additional considerations for specific Items.

(05 Ma

b) What do you understand by Analytical procedure.

(03 Ma

c) State purpose of Analytical procedure.

(04 Ma

d) What are the factors the auditor will need to consider when intending to perform analytical procedure as substantive procedure?

(04 Ma

e) (i) What are the aspects to be considered by the auditor When designing an audit sample?

(06 Ma

(ii) List three selection methods of samples, commonly used by the auditor.

(03 Ma

(Total 25 Ma

4. a) Internal auditing is an appraisal activity established within an entity as a service to the management. State Five (5) advantages of an efficient internal audit system to the management.

(05 Ma

b) Briefly discuss distinction between internal and External audit.

(04 Ma

c) What are the important criteria for understanding and preliminary assessment of internal audit functions?

(04 Ma

d) What are the inherent limitations of internal controls?

(04 Ma

e) Write short notes on the following

(i) Investigating unusual items.

(ii) Audit sampling

(iii) General CIS Controls

(iv) Internal control Questionnaires(ICQs)

(4x2=08 Ma

(Total 25 Ma