01. (a) Differentiate an audit from an investigation. (03 marks)

(b) List three (03) limitations of an audit that affect the auditor’s ability to detect material misstatements. (03 marks)

(c) Technical competence and due care are two fundamental principles that AAT members should follow when conducting their work. Briefly explain the two (02) fundamental principles:

(i) Technical competence, and

(ii) Due care. (04 marks)

(d) You are the senior in charge of the audit of Tharu (Pvt) Ltd. Mr. Tharuke, Managing Director of Tharu (Pvt) Ltd. informed you that the primary objective of statutory audit is to detect fraud and error.

Would you agree with Mr. Tharuke? Justify your answer. (05 marks)

(e) Briefly explain why it is important to have a letter of engagement with the client. (03 marks)

(Total 18 marks)

02. (a) List four (04) objectives of planning an audit. (04 marks)

(b) You are a member of the audit team auditing the financial statements of Ranhiru (Pvt) Ltd. and you have been assigned the verification of Motor vehicles.

List four (04) important audit procedures you would perform in verifying Motor vehicles appearing in the Statement of Financial Position (Balance Sheet) as at 31st March 2012. (04 marks)
(c) You are a member of the team performing the audit of accounts of Hifashion (Pvt) Ltd. for the year ended 31st March 2012. Hifashion (Pvt) Ltd. manufactures garments using imported fabric for export to Europe. Eventhough Hifashion (Pvt) Ltd. has imported fabric for expected customer orders, such expected orders have been cancelled by its customers due to the economic downturn in Europe. The sales manager of Hifashion (Pvt) Ltd. has indicated that its European customers have not been able to sell the garments that they have previously imported. Hifashion (Pvt) Ltd. has obtained an overdraft to finance its immediate working capital requirements.

Based on the above information, identify three(03) important areas that require special attention during the audit? You have to state why such areas require special attention. (06 marks)

(Total 14 marks)

03. (a) Briefly explain what you understand by inherent risk. (02 marks)

(b) List three(03) factors that the auditor should consider when designing audit procedures to assess the risk of material misstatements. (03 marks)

(c) Pooja Travels (Pvt) Ltd. organizes religious tours to India. The daily cash collected from sales is not banked and is used to pay for the day to day expenses. The cashier releases cash for day to day expenses based on cash advance requests signed by the requestor. When cash advances are settled a payment voucher is prepared by the cashier and is approved by the Managing Director and the Accountant. The cashier provides a monthly cash collection and expenses summary to the Accountant.

(i) Identify four(04) internal control weaknesses in the internal control system detailed above. (04 marks)

(ii) List four(04) suggestions to improve the internal control procedures in the above. (04 marks)

(d) State three(03) important criteria that the external auditor should consider when the external auditor intends to use the work of internal auditing. (03 marks)

(Total 16 marks)

04. You are a member of the team auditing the financial statements of Ruhunu (Pvt) Ltd.

(a) List four(04) tests of controls that you should perform when vouching cheque payments. (04 marks)

(b) List four(04) substantive procedures for Trade Creditors. (04 marks)
Give an audit procedure you should perform in vouching of purchases to obtain audit evidence for each of the following assertions:

(i) Occurrence.
(ii) Completeness.
(iii) Accuracy.
(iv) Cut off.  (04 marks)

When reading the board minutes of Ruhunu (Pvt) Ltd. you found that a customer has taken legal action against the company, filing a material claim against the company. Ruhunu (Pvt) Ltd. has not made a provision or a disclosure of this claim in financial statements. State an audit procedure you should perform regarding this matter.  (02 marks)

05. (a) State three(03) types of general controls that can be established in a computerized information systems (CIS) environment.  (03 marks)

(b) State and briefly explain the two(02) audit approaches that can be used in auditing the transactions in a computerized information systems (CIS) environment.  (04 marks)

(c) You are a member of the team auditing the financial statements of Supri (Pvt) Ltd. for the year ended 31st March 2012. You are responsible for auditing the Trade debtors. The audit manager has asked you to pay special attention on Trade debtors because the debtors' value shown in the financial statements amounting to Rs.1,332,000/- is significantly higher than the last year balance even though the sales value has remained constant.

Additionally you have been given the following Trade debtors' age analysis:

<table>
<thead>
<tr>
<th>Trade Debtor</th>
<th>Balance as at 31st March 2012 Rs.</th>
<th>0 - 90 days Rs.</th>
<th>91 - 180 days Rs.</th>
<th>181 - 365 days Rs.</th>
<th>More than 365 days Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gamini Stores</td>
<td>270,000</td>
<td>70,000</td>
<td>200,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Kandurata (Pvt) Ltd.</td>
<td>220,000</td>
<td>-</td>
<td>-</td>
<td>220,000</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>215,000</td>
<td>-</td>
<td>215,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Supun Super Market</td>
<td>412,000</td>
<td>200,000</td>
<td>150,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Vasana Stores</td>
<td>80,000</td>
<td>80,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,197,000</strong></td>
<td><strong>350,000</strong></td>
<td><strong>565,000</strong></td>
<td><strong>-</strong></td>
<td><strong>220,000</strong></td>
</tr>
</tbody>
</table>

You are required to, identify four(04) audit issues apparent from the above data giving reasons why special attention should be given for those four areas in the audit.  (08 marks)
(d) State three (03) audit procedures you can perform to obtain further audit evidence on the audit issues identified in (c) above. (03 marks)

(Total 18 marks)

06. (a) List six (06) important elements that must be included in an Auditor’s Report. (06 marks)

(b) State three (03) audit procedures that can be performed to identify instances of non compliance with laws and regulations applicable to a business organization. (03 marks)

(c) The auditor of Sahana (Pvt) Ltd. has discovered that the company has not been paying Nation Building Tax (NBT) even though the company is required to pay such tax as per the relevant legislation. State two (02) actions the auditor would take in this situation. (04 marks)

(d) List four (04) types of institutions / specific institutions whose accounts are audited by the Auditor General of Sri Lanka. (04 marks)

(e) State three (03) instances where the office of the Auditor General of Sri Lanka could become vacant as per the Constitution of 1978. (03 marks)

(Total 20 marks)