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CERTIFIED PUBLIC ACCOUNTANT INTERMEDIATE LEVEL EXAMINATIONS

11.4: AUDITING

DATE: FRIDAY 25, AUGUST 2023

INSTRUCTIONS:

- 1. Time Allowed: 3 hours 15 minutes (15 minutes reading and 3 hours writing).**
- 2. This Examination has two sections (A & B).**
- 3. Section A has Three compulsory questions, while section B has Three questions to choose Two.**
- 4. Five questions in total are to be attempted.**
- 5. The question paper should not be taken out of the examination room.**

SECTION A

QUESTION ONE

NMB Group Ltd is a consortium of four companies dealing with cargo shipping, dealerships, warehousing, and wholesaling across the globe. After acquiring the third subsidiary namely TBT Wholesale Ltd, each company had its own accounting system, the management of the group decided to acquire an integrated financial management system that would be used by all its subsidiaries to facilitate tracking daily operations, bookkeeping, inter-company transactions, and consolidation process.

You are a senior auditor at MP Partners and during the end year group board meeting, your firm was been appointed as the auditor to NMB Group Ltd. Your audit manager has shared with the engagement team the overall audit strategy and he has asked you to develop an audit plan that encompasses the risk assessment on material misstatement, as he believes that it is vital that your firm complies with ISA 315 Identifying and Assessing the Risks of Material Misstatement.

From your preliminary visit at NMB Group Ltd, you obtained the following information, and you believe that they should be documented in your risk assessment procedures, as it includes material audit risks which you feel your audit team members will need to pay attention to.

- As part of migration from the individual subsidiaries' accounting systems to the newly acquired integrated financial management system, the accounts balances were brought to transit migration accounts which were created in accordance with classes of transactions, the account balances were then to be cleared to the new system, hence there should be thereafter a null balance. However, you realized that some of those transit migration accounts were still having uncleared balances after the end of client's financial year under audit.
- The group's cargo delivery time policy changed from 45 days to 65 days from the date the client presses an order, most of the clients were not happy for these changes and many lodged complains on which management explained that this was due to the current evolving global economic and political issues.

Required:

- Define the term "Audit risk" and give an example of a risk that is attributed on NMB Group financial statements in accordance with the above case study. (3 Marks)**
- In line with ISA 320 Materiality in Planning and Performing an Audit, elaborate at least five factors you will consider to identify NMB Group Ltd's materiality benchmark. (5 Marks)**
 - Briefly discuss why most auditors prefer to use risk-based audit approach to other audit approaches. (4 Marks)**

(c) One way to decrease detection risk is to increase the sample size. However, increasing sample size and carrying out more work is not the only way to manage detection risk. That is because detection risk is a function of the effectiveness of an audit procedure and of its application by the auditor.

Required:

In accordance with ISA 200, Enumerate other matters that can be considered by an auditor to reduce the detection risk. (8 Marks)

(Total: 20 Marks)

QUESTION TWO

The auditors must keep a record of the client's systems which must be updated each year. This can be done using several techniques for recording the assessment of control risk such as narratives notes, flowcharts, questionnaires (Internal Control Questionnaires and Internal Control Evaluation Questionnaires) or checklists. The usage of one or more of these techniques depends on the complexity of the system being assessed.

Required:

(a) Describe the above four techniques for assessing and recording client's internal control system and enumerate at least two merits and demerits for the usage of each. (12 Marks)

(b) ISA 330 *The Auditor's Responses to Assessed risks*, states that the tests of controls are performed only to controls that the auditor has determined are suitably designed. However, the same types of procedures may be used by the auditors at the same time to assess both their design and the effectiveness.

Required:

Elaborate the control objectives, related risks and test of controls that are associated with ordering and receipts of company's purchases. (6 Marks)

Hint: Use a table to indicate a control objective, risk, and relevant test of control on each item.

(c) Define a term "Walk-through test". (2 Marks)

(Total: 20 Marks)

QUESTION THREE

You are a senior auditor at Mataba & Co Ltd, your firm has been appointed to carry out the audit of BVC Ltd for the year ended 31 December 2022, a company specialized in printing consumables. The client requested your audit partner to speed up the audit process as it seeks to use the audited financial statements to request for a loan from the bank.

From that urgency of the assignment, your audit manager believes that having more experienced members of the engagement for this particular assignment would help to quickly gather appropriate and reasonable audit evidences to help at concluding this audit. The audit partner understands the urgency of the assignment but is also convinced that this can be a good platform for the newly employed junior auditors to get used to the job.

You have been approached by the new recruits and they would like you to help them on procedures they would use to gather audit evidence to arrive at drawing reasonable conclusions.

Required:

- In accordance with ISA 500, “*Audit evidence*”, briefly comment on the argument between the audit manager and the audit partner in the above case study. (2 Marks)
- Explain at least five audit procedures that the auditor uses to obtain audit evidence. (10 Marks)
- While designing the audit program for the audit of Mataba & Co Ltd’s non-current assets reported in the financial statements, you came across the following information:

- The records in assets register of Mataba & Co Ltd show that the company has many houses and plots that are scattered across the country.
- During the preliminary financial statements review, you noted a difference between the balance reported for property plant and equipment and the balance as per assets register.
- The financial statements included a disclosure note for a contingent liability arising from the pending court case between Mataba & Co Ltd and an individual who claims that one of the company’s plots is his.
- The management letter from the previous audit showed some weaknesses in company’s recording process which resulted to increased number of adjustments in the books of account. To address this, during the year under review, the company recruited an assets accountant to be specifically responsible for the assets’ records.

Required:

In line with the above case study, enumerate at least 4 assertions that are applicable to the audit of NMB Group non-current assets and on each assertion, propose a relevant substantive audit procedure that you would perform to get audit evidence. (8 Marks)

(Total: 20 Marks)

SECTION B

QUESTION FOUR

You are an engagement team member for the audit of Jyambere Bank for the financial year ended 31 December 2022. The bank had a five years strategic plan since it's incorporation to be listed on Rwanda stock exchange and therefore, the management of the bank would like the audit of the fifth year to be expedited so that they can officially submit the intention to be listed the stock exchange authority.

From the engagement preparation meeting, your engagement manager clarified that though the perceived risk of material misstatement was assessed as high, you will use sampling on all perceived risky areas and not to audit a 100% of the population. He also urged the team to consider the purpose of the audit procedures and the characteristics of the population when designing the audit sample and called on same items in the financial statements that will bring the use of stratification in their sampling, given their nature.

The audit partner intervened and stressed that he expected the team to use more analytical reviews given the business environment of the client and the reported positive trend in the financial statements when the current period figures are weighed to the comparative ones.

Required:

- (a) i. **Define the term “Stratification” as far audit sampling is concerned.** (2 Marks)
ii. **In accordance with ISA 530 Audit sampling, discuss on the main methods of selecting audit samples.** (6 Marks)
- (b) i. **Define the term “Analytical procedures”.** (2 Marks)
ii. **List at least six factors that the auditor must consider when deciding to use the analytical procedures** (6 Marks)
- (c) **In line with ISA 710 Comparative Information Corresponding Figures and Comparative Financial Statements, differentiate Corresponding Figures from Comparative Financial Statements.** (4 Marks)

(Total: 20 Marks)

QUESTION FIVE

You are a junior auditor at Bwenge & Co Ltd, while concluding and finalizing the audit of BTC Ltd's financial statements for the year ended 31st December 2022, the audit manager requested you to compile all observations noted and then draft the audit report together with the management letter for his review and finalization of the audit.

Required:

- (a) In line with ISA 700, forming an opinion and reporting on financial statements, **Explain the basic elements to be included in the auditor's report.** (14 Marks)
- (b) ISA 701, *Communicating key audit matters in the independent auditor's report* defines the key audit matters (KAMs) as those matters that in the auditor's professional judgement that are most significance in the audit of the financial statements of the current period, they are selected from matters communicated with those charged with governance. **List at least six factors to consider when determining Key Audit Matters.** (6 Marks)

(Total: 20 Marks)

QUESTION SIX

Corporate governance is the system by which companies are directed and controlled. Good corporate governance is important because the owners of a company and the people who manage the company are not always the same. Under this perspective, there are two major codes that are regarded as the best practices applied in most of the companies, The Cadbury report and combined code issued in 1992 and 1998 respectively. Under two codes, the directors, shareholders, and stakeholders are the key players for sound corporate governance.

Required:

- (a) **Outline the key terms of reference as per Cadbury report.** (4 Marks)
- (b) **In the context of the requirements of combined code, Enumerate the principles which can be adopted globally for effective and sound corporate governance in a company.** (14 Marks)
- (c) **What is an audit committee in a company** (2 Marks)

(Total: 20 Marks)

End of question paper

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