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# **CERTIFIED PUBLIC ACCOUNTANT ADVANCED LEVEL 1 EXAMINATIONS A1.2: AUDIT PRACTICE & ASSURANCE SERVICES**

**TUESDAY: 2 DECEMBER 2014**

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## **INSTRUCTIONS:**

- 1. Time Allowed: 3 hours 45 minutes** (15 minutes reading and 3 hours 30 minutes writing).
- 2.** This examination has two sections; A & B.
- 3.** Section A has one Compulsory Question while section B has three optional questions to choose any two.
- 4.** In summary attempt three questions.
- 5.** Marks allocated to each question are shown at the end of the question.
- 6.** Show all your workings

## SECTION A

### *Compulsory question*

#### **QUESTION ONE**

Maxi Giants Rwanda Limited (MGRL) is a subsidiary of Maxi International, a company incorporated in The Netherlands. MGRL is located in Gisenyi, in Northwestern Rwanda. The company manufactures artificial fertilisers and employs many casual workers plus a number of commission sales executives.

The accounting system of the company is partly computerised and partly manual. There is a computerised database for regular customers, suppliers, creditors and debtors.

The company's products have a high demand both locally and regionally. Exports have increased from 5% to 25% in the past one year but the profit margin reduced from 32% to 23%.

The turnover for the year ended December 2013 was Frw 12 billion and one third of this was made through credit sales in order to maximise commissions by the commission sales executives. They were taking advantage of a relaxed credit policy of the company which gives a credit period of 45 days. The company has not been filing its tax returns regularly. MGRL is battling a litigation case with a major supplier for nonpayment of interest on an overdue debt.

The company has now ventured into real estate business, as advised by a consultant who declared that such business is lucrative in Rwanda. MGRL has so far constructed and rented out 7 blocks of apartments in prime residential areas in Kanombe and Gikondo. Information relating to rental income is recorded manually at a separate office near the apartments and is not regularly updated in the computer system.

The company employs professional accounting staff but they are reluctant to disclose information to auditors due to an oath of secrecy they swore on joining the company. In fact, for the year ended December 2013 your firm, Rugambage and Associates Certified Public Accountants, had problems obtaining enough evidence to support the financial statements and even considered qualifying the audit report. The firm is determined to change the situation this year and the partner has asked the engagement team to perform all audit procedures to achieve this objective.

As audit manager in charge of the audit, you want to ensure that your team carries out professional work. Given the complexity of the company, you are conscious that working papers are critical in supporting your report, yet some staff on the team have just joined the firm and need hands on training. As a point of reference for future audits, you want to use this engagement to train staff in carrying out analytical reviews, writing audit reports and compiling a proper current audit file.

It is a policy of Rugambage and Associates that any audit team should comprise a partner, audit manager, a senior and two audit trainees as a way of ensuring adequate capacity building of staff in the firm. It is also a policy that every audit should have a comprehensive audit programme.

#### **Required:**

- (a) Using the information provided, prepare a memorandum to be discussed with your team, explaining the risks associated with MGRL and the audit approach to be adopted in high risk situations. (17 Marks)
- (b) Explain to your staff the meaning of a current file and the information they are required to include therein when undertaking the audit of MGRL (6 Marks)
- (c) Discuss the advantages and disadvantages of audit programs when conducting audits. (7 Marks)
- (d) Giving examples from the case, explain the stages at which the auditor will carry out analytical reviews and illustrate the factors which might influence the extent of use of analytical reviews. (12 Marks)
- (e)
  - (i) Briefly explain the contents of the introductory paragraph in the auditor's report.
  - (ii) Giving examples, describe the circumstances in which an emphasis of matter paragraph might be necessary in the audit report. (8 Marks)

(Total 50 Marks)  
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## SECTION B

*Attempt two questions from this section*

### QUESTION TWO

Nyakabanda Ltd was recently incorporated in Rwanda. It is located in Nyakabanda approximately 6.5 km southwest of Kigali. The company engages in open cast mining activities and also operates a waste treatment plant. The media, civil society organisations and the public have raised the health hazard problems associated with the company's activities and have asked the concerned regulators to investigate the matter. Your firm, Nyimanzi Great and Partners has been approached by Nyakabanda Ltd to carry out the audit of the company's financial statements for the year ended 31 October 2013.

**Required:**

- (a) Evaluate the environment and other related matters that could affect the audit of the financial statements of Nyakabanda Ltd (13Marks)
  - (b) Explain the substantive procedures your firm would adopt in carrying out the audit of the company. (8 Marks)
  - (c) Briefly outline the auditor's approach when dealing with laws and regulations affecting Nyakabanda Ltd. (4 Marks)
- (Total 25 Marks)**

### QUESTION THREE

You are a partner in Lozzens and Partners, a firm of certified public accounts in Kigali. You have just successfully tendered for the audit of Remera Investments Company Limited, dealing in phones and phone accessories with a chain of outlets in Kigali. The company has just been incorporated and has not previously had an audit. You are about ready to accept nomination.

**Required:**

- (a) Explain the procedures you should carry out prior to accepting nomination (6 Marks)
- (b) In the course of your acceptance procedures, you received information from one of your business contacts concerning one of five directors of Remera Investments Company Limited, Mr. Musambyimana. It stated that your business contact had done some personal tax work for Musambyimana six years ago but he had found him (Mr. Musambyimana) to be difficult to keep in contact with, slow to provide information and he suspected him of being economical with the truth when it came to his tax affairs. As a result of this distrust he had ceased to carry work for him

**Required:**

- (a) Discuss the effect this reference would have on accepting nomination. (13 Marks)
- (c) Lozzens and Partners have decided not to accept appointment as auditors for Remera Investments Company Limited for the year ending 31 December 2014 giving ethical reasons.

**Required:**

- (a) Explain any three ethical reasons that Lozzens and Partners might give for not seeking reappointment as auditors. (6 Marks)
- (Total 25 Marks)**

### QUESTION FOUR

You are an audit partner in your firm, which carries out the audit of Kivu Fisheries Limited, a listed company on the shores of Lake Kivu. Because the company is listed on the Rwanda Stock Exchange, you have been asked to perform a second partner review of the audit file for the year ended 30 October 2014 before the adopted opinion is finalized. The reported profit before tax is Frw 1.25 Billion and total assets of Frw 8.18 Billion.

You have read the following notes from the audit file:

You have just discovered that the company has had a fraud. The finance director has identified a number of discrepancies in the stock records of fish counts which do not tally with inventory records and the quarterly



management accounts. His suspicions have been increased by the fact that the discrepancies always relates to the same type of fish product, the tilapia, and approximately the same number of quantities appear to be missing each time.

**Required:**

- (a) Explain the procedures you would perform to determine whether a fraud has taken place and to quantify the loss suffered by the company, if any. **(10 Marks)**
- (b) ISA 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, does require an auditor to undertake specific procedures with regard to fraud. However the auditor should recognize that there are potential effects of inherent limitations on the ability to detect fraud.

**Required:**

Explain why the auditor may face the limitations as described above. **(5 Marks)**

- (c) Explain what actions an auditor should take when he discovers potential errors and frauds in the course of their audit. **(10 Marks)**

**(Total 25 Marks)**

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**End of question paper**