CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 2 EXAMINATIONS

L2.5: AUDITING

WEDNESDAY: 2 DECEMBER 2015

INSTRUCTIONS:

1. **Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has **seven** questions and only **five** questions are to be attempted.
3. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

You are an audit senior at BGR & Co., a firm of certified public accountants. The audit manager has selected you to be part of the audit team for the audit of RBS Shipping Company Limited (RBSSL) for the year ended 30 June 2015. The company has a fleet of trailers which transport goods for its clients from Mombasa to Kigali. The following issues were discussed in a pre-audit meeting which you also attended:

- RBSSL was sued by one of its clients for goods stolen in transit from Mombasa to Kigali.
- Due to the difficult economic conditions, some trade receivables may not be recoverable. Some clients have communicated their inability to pay their outstanding obligations to RBSSL.
- The head of finance resigned during the financial year and her duties and responsibilities are now handled by the finance manager. The finance manager hinted that his workload was too much and that the audit process may take a little more time.
- RBSSL was fined and ordered to pay accrued taxes and penalties by Rwanda Revenue Authority for failure to honor its tax obligations on time and for under declaration of taxes relating to the past five financial years.
- An analytical review carried out by the audit manager revealed that the directors' expenses had increased by 100% from the previous financial year.

REQUIRED:

(a) Describe the contents of the audit plan you would prepare for the audit of RBS Shipping Company Limited. **(5 Marks)**

(b) Identify:

(i) likely audit risks in the audit of RBS Shipping Company Limited. **(5 Marks)**

(ii) audit procedures you intend to carry out to assess the perceived risks in (b) (i) above. **(5 Marks)**

(c) Advise the audit manager on at least five factors to consider when selecting the audit team for this audit assignment. **(5 Marks)**

(Total 20 Marks)

QUESTION TWO

Rugambwa & Co. has just acquired a new audit client, Quick Cash Ltd, a micro-finance institution. At the client screening stage, the audit manager was quoted as making the following statements:

- We shall not rely on the work done by the Internal Audit department.
- Following the recent restructuring process of the company, the board passed a resolution to outsource the internal audit department.
- We need to prepare an engagement letter to be signed by the client and our engagement partner.

REQUIRED:

(a) Explain the circumstances under which the internal audit function's work cannot be relied upon by the external auditor. **(2 Marks)**

(b) Explain three advantages and three disadvantages that may arise from the board's decision to outsource the internal audit function. **(6 Marks)**

(c) Identify and explain six contents of an engagement letter. **(12 Marks)**

(Total 20 Marks)

QUESTION THREE

(a) ISA 520: Analytical Procedures; states that the objectives of the auditor are to obtain relevant and reliable audit evidence when using substantive analytical procedures, and to design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

REQUIRED:

(i) Define the term 'analytical procedures. **(2 Marks)**

(ii) Identify the levels in the audit of financial statements at which analytical procedures are applied. **(3 Marks)**

(ii) Identify and give five examples of analytical procedures which would be carried out during the audit of an entity. **(5 Marks)**

(b) ISA 570: Going Concern; states that the auditor's responsibility is to obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is material uncertainty about the entity's ability to continue as a going concern.

REQUIRED:

Identify ten various indicators which might show actual or potential going concern problems during the audit of an entity. **(10 Marks)**

(Total 20 Marks)

QUESTION FOUR

(a) ISA 700: Forming an Opinion and Reporting on Financial Statements; states that the auditor's report shall be in writing.

Required:

Identify and explain the contents of an audit report. **(16 Marks)**

(b) ISA 706: Emphasis of Matter Paragraph and Other Matter Paragraphs in an Independent Auditors Report deals with additional communication in the auditor's report when the auditor considers it necessary.

REQUIRED:

Describe the circumstances under which an emphasis of matter paragraph is necessary. **(4 Marks)**

(Total 20 Marks)

QUESTION FIVE

TRA & Co Ltd deals in refuse collection in Kivu Province. The company has experienced challenges in their control over revenue in the last two years. Cases of fraud have been reported on various occasions, and despite some employees having been sacked, there seems not to be an end to fraudulent practices.

You are part of the audit team assigned to the audit of TRA & Co Ltd, and you have been allocated revenue as your assignment on audit.

REQUIRED:

(a) Identify any four audit objectives for the audit of revenue. **(4 Marks)**

(b) Describe any four controls over revenue that could be adopted by TRA & Co Ltd to safeguard its revenue from misappropriation. **(8 Marks)**

(c) Explain eight substantive procedures you would use to obtain the evidence needed to make an appropriate audit opinion on revenue. **(8 Marks)**

(Total 20 Marks)

QUESTION SIX

ISA 620: Using the Work of an Auditor's Expert; deals with the auditor's responsibilities relating to the work of an individual or organization in a field of expertise other than accounting or auditing, when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence.

REQUIRED:

(a) Giving at least **one** example, describe five areas in the audit of financial statements where an expert may be required. **(10 Marks)**

(b) Identify and explain five duties of an external auditor. **(10 Marks)**

(Total 20 Marks)

QUESTION SEVEN

ISA 530: Audit Sampling; states that the objective of the auditor when using audit sampling, is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.'

REQUIRED:

(a) Explain the term 'judgment sampling' and give its four benefits. **(6 Marks)**

(b) Explain the various types of Computer Assisted Audit Techniques (CAATs) that can be used in the audit of an entity. **(8 Marks)**

(c) Identify three advantages and three disadvantages of using an audit programme in the audit of financial statements. **(6 Marks)**

(Total 20 Marks)

End of question paper