INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA

Driving Sustainable Performance

Associate of IFAC

CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.2: AUDIT PRACTICE & ASSURANCE SERVICES

TUESDAY: 1 DECEMBER 2015

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

You are the audit manager of Johanna & Co. Certified Public Accountants. You have accepted to audit Jua Kali Supermarket Limited (JKSL) for the year ended 30 June 2015.

JKSL has its head office in Kigali and is listed on the Kigali Stock Exchange. It was set up in 1980 as a family business and has since grown to the point of listing on the stock market. The company runs a big supermarkets chain, with outlets in Rwanda, Uganda and Tanzania. They sell items ranging from groceries, household goods, electronics and furniture.

JKSL rents most of the premises on long-term lease agreements but also owns other premises as well. The owners of leased premises are contracted to design their premises according to the specifications provided by the company. The premises are well branded and are always strategically located.

The company has been in existence for a long time such that it has built goodwill among its clients, staff and suppliers. Their mode of operation is such that all goods are supplied by reputable companies.

As part of the preparations for the forthcoming audit, you held a meeting with the Chief Finance Officer (CFO) of JKSL and established the following facts:

- The company owns three huge supermarkets in Rwanda and has rented premises for its eight branches in Tanzania and Uganda. These have various advantages that include ample parking space and easy access.
- The company secured loans against all its prime properties. The loans were acquired to meet the company's working capital requirements.
- The company runs a loyalty card system where clients receive a 5% discount on purchases made above Frw 1,500.
- The company took over or bought out local supermarkets in Uganda and Tanzania in a very aggressive expansion strategy in the new markets outside Rwanda.
- The company is currently experiencing very serious liquidity problems that arose after taking over the local supermarkets using bank loans from four major commercial banks.
- The company has not been able to pay rent for all its rented premises for six months now. This has led to some discomfort among the owners of the premises.
- About 90% of the revenue of JKSL comes from Rwanda but 25% of the costs are incurred in Tanzania and Uganda. However, the revenue contribution to the group from both Tanzania and Uganda does not exceed 5%.
- There is high suspicion that employees steal items from supermarket shelves and cash from the tills.
- The CFO is also very concerned that the company has posted significant losses for the last three financial years.

There have been press reports detailing how the company has not been able to pay suppliers for over three months. Those who were paid got bouncing cheques. Some suppliers have resorted to legal proceedings. One of the key suppliers raided the main store as result of failure to get paid over Frw 50,000,000. Competition in the industry is very high as there are local supermarkets as well as supermarkets with head offices in South Africa operating with greater efficiency than JKSL. It was reported during the annual general meeting that the financial statements for the year ended 31 December 2013 were misstated.

Employees have not been paid their salaries and wages for some time. The Chief Internal Auditor resigned recently citing a lot of pressure from the Audit Committee. The regulator's internal controls review ranked those of JKSL as "unsatisfactory".

The Chief Executive Officer was also fired for 'gross misconduct and incompetence'.

REQUIRED:

(a) As part of the planning process, present a risk assessment of Jua Kali as your new client. **(18 Marks)**

(b) Discuss the indicators that JKSL may not be a going concern. **(8 Marks)**

(c) Describe the audit evidence that you would have on file relating to payables, and long-term loans. **(10 Marks)**

(e) Explain what is meant by 'value for money', clearly bringing out its major components. **(4 Marks)**

(d) ISA 220; Quality Control for an Audit of Financial Statements,' requires that in all firms, quality control procedures should be introduced that are applicable to individual audit engagements.

REQUIRED:

Describe the control procedures for individual audits or assignments. **(10 Marks)**

(Total 50 Marks)

SECTION B

Attempt two questions from this section

QUESTION TWO

You have been appointed as auditors of Ineza Herbals Limited (IHL) for the year ended 30 June, 2015. The company deals in herbal medicine. It was founded by Mr. Gregory Ineza, the Executive Director (ED). During the audit planning process, a number of issues came to your attention.

The company is based in Nyanza town. It has branches in Huye and Gisenyi. Sales made are banked on various accounts. Much as the company has a bank account in Charity Rwanda Bank, some money is banked on the Executive Director's personal bank account. The ED requisitions for money from branches and directs it to be deposited on his mobile money account or personal bank account. The company has just recruited Ms. Ann Gasasira, as the new Managing Director (MD) who has been asked to generate her own job description. Management has not bothered to communicate the need for change starting with the major recruitment. It also came to your attention that the current employees have no job descriptions, too. Everyone seems happy to report directly to the Executive Director.

The production plant is based in Muhanga and serves as the home of the Executive Director as well. On several occasions, the ED has procured raw materials for the company without inquiring if they are needed in the production department. This has put the finance department in the dilemma of paying debts they are not aware of. All procurement issues in the company are decided by the ED. On several occasions, the secretary to the ED has gone for seminars on techniques in herbal medicine production but she has not passed on the information to the production department.

All sales are for cash and banking is made as and when the finance staff are free. The cashier keeps the cash in the cash safe to which she has full access without presence of another finance staff. Currently, there is no authorised cash float and management spends the available cash and banks the balance.

From the information provided to you, you discover that monthly reports are not prepared nor are budgets made. No management accounts have ever been prepared since the incorporation of the company. The ED has an assessment from Rwanda Revenue Authority of Frw 30,000,000 which he disputes.

As part of the clauses in the engagement letter, the auditor states that their role is to issue an independent opinion on the financial statements. They also state that in addition to the audit report, they will issue the client a management letter that will address areas of weakness that will come to their notice during the course of the audit.

REQUIRED:

(a) Prepare a management letter highlighting the key internal control weaknesses and recommendations to address those weaknesses. **(18 Marks)**

(b) Describe the purpose of the various components of the auditor's report. **(7 Marks)**

(Total 25 Marks)

QUESTION THREE

Your audit firm, Rusagara & Co, have been appointed as auditors of the David Group of Companies

REQUIRED:

(a) Discuss the steps involved in understanding the group before and during the audit process. **(10 Marks)**

(b) The main objective of IFRS 3: Business Combinations is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects.

REQUIRED:

(i) Explain the considerations necessary to achieve the above objective. **(2 Marks)**

(ii) An entity shall account for each business combination by applying the acquisition method. Explain the requirements necessary during the application of this method. **(3 Marks)**

(c) Describe the ways through which auditors can minimise their potential liability for professional negligence. **(10 Marks)**

(Total 25 Marks)

QUESTION FOUR

Jubilee Investments Limited issued its interim financial statements for the nine months period ended 30 September 2015. The statement of financial position, as at 30 September, is as detailed below:

	2015 Frw'000'	2014 Frw'000'
Assets:		
Non-current assets:		
Property plant and equipment	170,000	80,000
Investments	90,000	120,000
	260,000	**200,000**
Current assets:		
Inventory	65,000	70,000
Receivables	210,000	160,000
Cash at bank and in hand	15,000	95,000
	290,000	325,000
Total assets	**550,000**	**525,000**
Capital and reserves:		
Share capital:	70,000	70,000
Share premium account	15,000	15,000
Accumulated profits	24,000	69,000
	109,000	**154,000**
Non-current liabilities:		
Provision for liabilities	70,000	45,000
Deferred tax	5,000	3,000
	75,000	48,000
Current liabilities	366,000	323,000
Total capital and liabilities	**550,000**	**525,000**

REQUIRED:

(a) Given the above information, set out the audit procedures that you would perform on the following items:

(i) Inventory **(5 Marks)**

(ii) Receivables **(5 Marks)**

(iii) Non-current assets **(5 Marks)**

(b) The company is contemplating instituting an internal audit function which has not been in place before.

REQUIRED:

As their consultant, justify the roles of an internal audit department in a company. **(10 Marks)**

(Total 25 Marks)

End of question paper

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