

CERTIFIED PUBLIC ACCOUNTANT INTERMEDIATE LEVEL EXAMINATIONS

11.4: AUDITING

THURSDAY: 3 DECEMBER 2015

INSTRUCTIONS:

- 1. Time Allowed: 3 hours 15 minutes (15 minutes reading and 3 hours writing).**
- 2. This Examination is divided into two sections (A & B)**
- 3. Section A has three (3) Compulsory Questions while Section B has four (4) questions to choose two (2)**
- 4. Five (5) questions in total are to be attempted.**
- 5. All iCPAR Examination rules and regulations apply**

SECTION A

(Attempt all questions in this section)

QUESTION ONE

- (a) Makuza, & Co, a firm of certified public accountants, has been in the consultancy industry for the last 10 years and has carried out various audits. During the audit, they discovered the issues detailed out below:

Maple and Partners (M & P)

During the audit of (M & P), it was found out that one of the partners, Miss Ineza, wanted to quit the partnership citing irreconcilable differences. The main reason for her desire to leave the firm was the unclear valuation and ownership of the partnership assets. It was found out that the partnership assets were in the names of the managing partner and were still maintained at cost although there have been changes in the market values.

Kalenzi and Sons Ltd (KSL)

During the audit of KSL, it came to the auditors' attention that the books of KSL were confiscated by Rwanda Revenue Authority due to irregularities in their sales returns for the period under audit. Makuza & Co. were unable to verify the sales and trade receivables figures included in the financial statements. It was also established that the trade receivables figure constituted 75% of the total current assets.

Mufuzi Medical Insurance Ltd (MMIL)

During the audit MMIL availed the auditors with all the necessary documents and explanations. The figures in the financial statements were fully supported; income was backed up by invoices to clients; proper procurement procedures had been followed for all expenses, assets and liabilities were owned by the company and all these were readily verified by the auditors.

Ruganzu Ltd (RL)

During the audit of RL, the auditors found out that the company had been servicing a loan from Gasabo Bank Ltd. which had expired but the bank had indicated that they would not renew the loan yet RL had not yet secured alternative financing. Without external financing, RL would most likely be unable to meet its day-to-day activities.

REQUIRED:

- Identify and explain an appropriate audit opinion for each of the audit clients of Makuza & Co. set out above. **(8 Marks)**
- (b) Explain the reasons for modifying an audit opinion. **(6 Marks)**
- (c) Describe the contents of an auditor's report. **(6 Marks)**
- (Total 20 Marks)**

QUESTION TWO

Rurama Guest House Ltd (RGHL) was incorporated in 2011 by three directors with the aim of maximizing profits. The company's major sources of income include accommodation, transport and meals. KR & Co have been contracted to review RGHL's internal controls over cash and non-current assets of RGHL. During their review of the internal controls, the following observations were made:

- Cash is received by a number of people who include the Front Office Manager and the Chef. The Front Office Manager receives cash for accommodation and transport whereas the Chef receives cash for meals.

- There is no central procurement; food stuffs are procured by the Chef who also raises the requisitions.
- The officers only issues receipts for the sales made on request from customers.
- Commissions are paid to persons who bring in business; however, there are no standard commission rates and payments are not documented.
- Since its inception, a number of assets have been purchased by the different directors; however, some were purchased at exaggerated prices.
- The company assets are not labeled and there is no register in place showing the details pertaining to those assets.
- The value of the company assets is not known, because there has never been any asset valuation.

REQUIRED:

- Identify and explain the control weaknesses over:
 - Cash of the Guest house. (4 Marks)
 - Assets of the Guest house (4 Marks)
 - Describe the controls that should be put in place to overcome the weaknesses identified in (a) (i) and (ii) above. (12 Marks)
- (Total 20 Marks)**

QUESTION THREE

Magona Ltd. (ML) has appointed your audit firm; Jean & Co to audit their books for the financial year ended 30 June 2015. During the pre-audit meeting, the Audit Manager was informed by the Company Director that the source documents were to be delivered to the firm's office. He further informed the Audit Manager that, that was all they would give him to carry out the assignment.

REQUIRED:

- As an audit senior, you have been asked by the Engagement Partner to discuss, for the audit team, the responsibilities of the:
 - Auditor. (6 Marks)
 - Directors in regard to the audit of financial statements for the year ended 30 June 2015. (6 Marks)
 - Article 14 of the Official Gazette No. 45 of 11/11/2013 of the Republic of Rwanda highlights the responsibilities of the Auditor General. Outline the responsibilities of the Auditor General as set out in the Official Gazette. (8 marks)
- (Total 20 Marks)**

SECTION B

(Attempt ANY TWO questions in this section)

QUESTION FOUR

The efficient working of internal controls is helpful not only to management but also to external auditors in identifying potential misstatements and factors that affect the risk of material misstatements.

REQUIRED:

- (a) Discuss at least five components of internal controls. (12 Marks)
 - (b) Explain any four limitations of internal controls. (8 Marks)
- (Total 20 Marks)**

QUESTION FIVE

- (a) Audit sampling is the application of audit procedures to less than 100% of the items within a population. This selection helps provide the auditor with a reasonable basis on which to draw conclusions about the entire population.

REQUIRED:

- (i) Explain four types of sampling methods that an auditor may use during an audit. (8 Marks)
 - (ii) State four circumstances under which an auditor may consider sampling inappropriate. (4 Marks)
- (b) Under ISA 580: Written representations; the auditor is required to obtain written representations regarding the reasonableness of significant assumptions used. Explain the contents of a written representation. (8 Marks)

(Total 20 Marks)

QUESTION SIX

The directors of Gaju Secondary School have appointed Nyangweba & Co, to carry out an audit of the school for the financial year ended 30 June 2015.

REQUIRED:

- (a) Explain what Nyangweba & Co should consider when planning for the audit of Gaju Secondary School. (10 Marks)
- (b) Design an audit programme for payables to be used by Nyangweba & Co. (10 Marks)

(Total 20 Marks)

QUESTION SEVEN

The Institute of Certified Public Accountants of Rwanda requires its members to observe the fundamental ethical principles.

REQUIRED:

- (a) Explain the ethical principles designed to ensure that auditors become and remain independent. (10 Marks)
- (b) Discuss the possible threats to the independence of an auditor. (10 Marks)

(Total 20 Marks)

End of question paper