

CERTIFIED PUBLIC ACCOUNTANT

LEVEL 2 EXAMINATIONS

L2.5: AUDITING

WEDNESDAY: 30 NOVEMBER 2016

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.**
- 4. All iCPAR Examination rules and regulations apply.**

Attempt any five questions

QUESTION ONE

The following extracts were written by a professional accountant in one of the accountants' magazines. The internal audit function of an entity is expected to perform assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes. The internal audit personnel are, however, required to be competent if they are to carry out their responsibilities as directed.

Competence of the internal audit function refers to the attainment and maintenance of knowledge and skills of the function as a whole at the level required to enable assigned tasks to be performed diligently and in accordance with applicable professional standards.

The auditor is required to plan and perform an audit with professional skepticism recognising that circumstances may exist that cause the financial statements to be materially misstated. Professional judgment is also necessary in particular, regarding decision making by the auditors.

REQUIRED:

- (a) Explain the factors that enable the auditor ascertain the competence of an internal audit function. **(8 Marks)**
 - (b) Identify the work of the internal audit function that can be used by the external auditor. **(3 Marks)**
 - (c) Explain the circumstances during the audit of financial statements, where:
 - (i) Professional judgment is necessary. **(6 Marks)**
 - (ii) Professional skepticism is required. **(3 Marks)**
- (Total 20 Marks)**

QUESTION TWO

Under the going concern assumption, an entity is viewed as continuing in business for the foreseeable future. General purpose financial statements are prepared on a going concern basis, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Enquiring of management and, where appropriate, those charged with governance as to whether any subsequent events have occurred which might affect the financial statements is one of the recommended audit procedures in relation to subsequent events.

REQUIRED:

You are the audit assistant in TBM & Associates; your supervisor has asked you to:

- (a) Offer advice on the appropriate audit procedures to use in assessing the going concern assumption of an entity. **(10 Marks)**
 - (b) State the specific enquires of management that the auditor may make in regard to subsequent events during the audit of a trading entity. **(10 Marks)**
- (Total 20 Marks)**

QUESTION THREE

Auditors make assertions for the different types of potential misstatements that may occur. The assertions are normally categorised as assertions about classes of transactions and events for the period under audit; assertions about account balances at the period end; and assertions about presentation and disclosure.

REQUIRED:

- (a) Identify and explain the assertions relating to:
- (i) Classes of transactions and events for the period under audit. **(4 Marks)**
 - (ii) Account balances at the period end. **(3 Marks)**
 - (iii) Presentation and disclosure. **(3 Marks)**
- (b) When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with those charged with governance.

REQUIRED:

- (i) Discuss the importance of such communication. **(4 Marks)**
- (ii) Identify the contents of the introductory paragraph of the auditor's report. **(6 Marks)**

(Total 20 Marks)**QUESTION FOUR**

Rwanda Motors Ltd (RML) is an agent of one of the global car manufactures in Rwanda. RML sells brand new vehicles to customers and offers after sales services such as car maintenance and service. This requires RML to keep large levels of inventory in form of spare parts at their ten service centers around the country. The management of RML has requested your audit firm Kivu & Co, to take over the audit of RML for the period ended 30 September, 2016.

You are an audit assistant in Kivu & Co and your supervisor has briefed you about RML and your first assignment is to attend the inventory count for the period under review.

REQUIRED:

- (a) Advise your audit supervisor on the matters to consider in planning attendance at the physical inventory count of RML. **(8 Marks)**
- (b) Explain the matters relevant in evaluating management's instructions and procedures for recording and controlling the physical inventory count of RML. **(6 Marks)**
- (c) While recognising that exceptions may exist, describe what may constitute reliable audit evidence. **(6 Marks)**

(Total 20 Marks)**QUESTION FIVE**

National Bank-Rwanda (NBR) has over 1,000 staff who are paid on a monthly basis. NBR has controls for payroll systems designed to achieve the set objectives and minimize the possibility of fraud and or error. A whistleblower wrote an article in the newspapers claiming that NBR has 'ghost' employees on the payroll and some employees are paid more than they are supposed to earn as per their employment contracts. Your audit firm QTR & Co, have been hired to investigate the allegations in the newspapers.

REQUIRED:

- (a) Explain the nature of the payroll system controls that you would expect to find at NBR. **(6 Marks)**
- (b) Describe the audit procedures you will carry out while investigating the allegations relating to the payroll system of NBR. **(14 Marks)**

(Total 20 Marks)

QUESTION SIX

It is the responsibility of the incoming auditor to ensure that he obtains all necessary information about a potential client. The auditor should also be able to evaluate the design of the control environment of an entity. The control environment comprises the governance and management function; and attitudes, awareness and actions of those charged with governance and management concerning the entity's internal control.

REQUIRED:

- (a) Identify the information the auditor should know about the potential client before accepting an audit engagement. **(10 Marks)**
- (b) Explain the matters the auditor will consider in evaluating the design of the control environment of an entity. **(10 Marks)**

(Total 20 Marks)

QUESTION SEVEN

- (a) Explain why it is necessary for the auditor to prepare working papers during the audit of an entity's financial statements. **(10 Marks)**
- (b) Using examples, state some of the contents of audit working papers. **(10 Marks)**

(Total 20 Marks)

End of question paper