

**CERTIFIED PUBLIC ACCOUNTANT
INTERMEDIATE LEVEL EXAMINATIONS**

I1.4: AUDITING

FRIDAY: 01 DECEMBER 2017

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 any **two (2)**.
4. In summary attempt Five (**5**) questions.
5. All iCPAR Examination rules and regulations apply.

SECTION (A)

Attempt all questions in this section

QUESTION ONE

Muhire Limited was established 13 years ago and deals in scholastic materials. The company has won a tender to supply scholastic materials to all the public schools in Rwanda. Your firm D.D. & Co has been approached for consultation. In the meeting held between management, the board and the representative of DD & Co the following issues were noted:

1	The board chairman is involved in the day-to-day running of the business and before any key decision is taken, he has to be consulted.
2	The board of directors has been in service for the last 13 years, and the members have no specific term of contract.
3	There has been a resolution to appoint Mr. Kanyana and Ms. Keza as members of the audit committee. Mr. Kanyana is a substantial shareholder and supplier to the company whereas Ms. Keza is the wife of the managing director.
4	Muhire Limited has a number of subsidiaries and the board is concerned about the costs involved in appointing audit committees for each of its subsidiaries.
5	There is no distinction between the company resources and those of the shareholders. The shareholders can use their own resources to run the company.
6	The company management have manipulated the share price for personal gain and have been disguising poor company performance and mismanagement.

REQUIRED:

- (a) Explain the corporate governance challenges faced by Muhire Limited and how they can be overcome. **(8 Marks)**
- (b) Discuss the roles Mr. Kanyana and Ms. Keza would perform if elected on the audit committee of Muhire Limited. **(12 Marks)**

(Total 20 Marks)

QUESTION TWO

Nyagoma & Co have been appointed by the shareholders of PCB Bank Ltd to audit and also carry out assurance services for the financial year ended 30 June, 2017. The managing partner of Nyagoma & Co, Ms. Peace Nyagoma worked with PCB bank for 20 years before retiring into private practice. Ms. Peace Nyagoma went through the ranks in the bank from a senior accountant to finance manager and finally to the managing director prior to retirement three years ago. Nyagoma & Co has appointed you as the audit manager for the audit of PCB Bank Limited.

REQUIRED:

- (a) Describe to the audit team the fundamental principles to be observed while carrying

out the audit engagement.

10 Marks)

- (b) Explain the possible threats to the independence of Nyagoma & Co in carrying out the audit engagement of KCB Bank Limited.

(10 Marks)

(Total 20 Marks)

QUESTION THREE

Uwamahoro Investment and Savings Association (UISA) was established in 2005 by a group of Masters of Business Administration students who wanted to keep in touch after their degree course at Butare University. On a monthly basis each member had to save Frw 220,000, of which Frw 20,000 was a benevolent fund to be given to members in events of happiness such as weddings and birthday celebrations and also in sad moments when members lost close family members. The savings were used to advance loans to members and non-members, at an interest, and after seven years, UISA had accumulated enough funds to venture into the importation and assembling of computers. At their latest annual general meeting, the members appointed your company, Hirwa & Co to audit their books for the financial year ended 30 June, 2017.

There is concern by management that inventory may not reflect the true position at the year end.

The following information has been availed to your team for review:

1	The procurement officer orders directly for the computers and accessories in case there is demand.
2	At the time of ordering, inventory levels are not checked but the procurement officer relies on customer demands.
3	The company files the delivery note for the computer materials and products which are purchased and that is what is compared with the monthly sales to establish the closing inventory.
4	The company is so much interested in cutting costs and in most cases purchases are made when there is a request for a quotation by a client because of the absence of a warehouse where inventory can be kept.
5	There are computers which were purchased 5 years ago but due to changes in technology customers are not interested in them, and have been included in inventory at the selling price.
6	Inventory levels depend on quotations got and it is on this basis and availability of funds that new purchases are made.

REQUIRED:

- (a) Describe the internal control deficiencies over the inventory of UISA.

(8 Marks)

- (b) Advise the management of UISA on how to improve on the internal controls over inventory.

(12 Marks)

(Total 20 Marks)

SECTION (B)

Attempt any two questions in this section

QUESTION FOUR

Buyoya Foundation (BF) is an orphanage centre situated in the eastern province of Rwanda in Gatsibo district. BF was established in 2000 by Catholic Friends of Rwanda (CFOR) in America. The major aim of opening up this foundation was to give the orphaned children a bright future by educating them. The foundation caters for orphaned children with academic talents who lost their parents during the war.

Some of the qualifications for a child to benefit from this scheme include the following:

1	Be an orphan, that is, the child should have lost his/ her parents.
2	A recommendation letter from the Parish Priest where he/ she was born.
3	Be staying and studying in the eastern province; this was because the scheme wanted to minimise supervision and monitoring costs.
4	Be interested in studying and should exhibit academic excellence with an average pass mark of 70%. The report card at every end of term should be taken to the foundation office.
5	After completion of tertiary education, be ready to work for any Catholic institution in the eastern province for at least 5 years to give back and to contribute to the continuity of the scheme.

The first batch of students graduated 2 years ago and is currently serving in various Catholic institutions in the eastern province. CFOR has appointed your firm, Kengo & Co to look into the activities of BF for the year ended 30 June, 2017 in a period of 2 months at a fee of Frw 7 million.

REQUIRED:

- (a) As the audit manager, explain to the audit team what should be put into consideration while planning for the audit of Buyoya Foundation. **(10 Marks)**
- (b) Describe the audit tests Kengo & Co would carry out to ensure that the students on the scheme qualify. **(10 Marks)**

(Total 20 Marks)

QUESTION FIVE

- (a) Information Technology (IT) has revolutionised and changed the manner in which business is conducted today. All entities, private and public including the government have adopted IT systems such as integrated financial management systems (IFMS). Auditors need to know that the method of evidence collection and evaluation has changed

though the fundamental nature of auditing is still the same. Auditors must, therefore, embrace training in IT if they are to survive in business, especially training in the use of auditing software.

REQUIRED:

- (i) Examine the impact of Information Technology on the audit approach. **(6 Marks)**
 - (ii) Explain the areas of concern before auditors can adopt the use of computer-assisted auditing techniques (CAAT). **(2 Marks)**
- (b) Your firm, Akimana & Co have been working on two audit clients concurrently, that is CTK Shipping Company Ltd and Nyanza Properties Limited (NPL). You have been handling the two audits in your capacity as the audit manager. You have just completed the audit of CTK Shipping Company Ltd for the year ended 30 June, 2017 and you are in the process of finalising and issuing your audit report to meet the set deadline of 31 December, 2017 as set by the board. On 28 August, 2017 the Revenue Authority issued an additional tax assessment of Frw. 200 million to CTK Shipping Company Ltd relating to the financial year ended 30 June, 2017. The final audit materiality was Frw 100 million. The audit of NPL for the year ended 31 March, 2017 was completed and signed by Akimana & Co but the financial statements are yet to be issued to the shareholders. NPL has now discovered errors revealing that the financial statements are materially misstated and has communicated to Akimana & Co.

REQUIRED:

- (i) Explain to the engagement partner the audit procedures the firm needs to carry out in relation to CTK Shipping Company's additional tax liability. **(8 Marks)**
 - (ii) Advise your engagement partner on the appropriate action to be taken in relation to the material errors discovered in the financial statements of NPL. **(4 Marks)**
- (Total 20 Marks)**

QUESTION SIX

ISA 700 (revised): Forming an Opinion and Reporting on Financial Statements deals with the auditor's responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor's report issued as a result of an audit of the financial statements.

REQUIRED:

- (a) Explain the various elements of the revised auditor's report. **(12 Marks)**

(b) Describe the circumstances under which the auditor may be unable to obtain sufficient appropriate audit evidence. **(4 Marks)**

(c) The auditing profession has undergone a number of changes in recent years. In June, 2016 the European Union introduced new audit rules for large companies. This change addresses a number of key issues in the audit in public interest entities and large companies.

REQUIRED:

Explain the new audit rules that the European Union audit reform addresses in regard to the audit of public interest entities and large companies. **(4 Marks)**

(Total 20 Marks)

QUESTION SEVEN

You work as an audit senior at the Office of the Auditor General of Rwanda (OAG). The OAG is mandated by law to audit all public entities and government parastatals. You have been allocated together with a team of 5 members to audit Rwanda Civil Aviation Authority (RCAA) for the year ended 30 June, 2017. One of your team members, Abayisenga is wondering which type of audit you are going to do at RCAA. The audit manager in charge of RCAA has assigned you to audit the payroll system. RCAA has a payroll of over 500 employees. As the auditor in charge of payrolls, you will need to gather sufficient appropriate evidence to validate management's assertions about the payroll system.

REQUIRED:

(a) Explain to Abayisenga the different types of public sector audits. **(4 Marks)**

(b) Describe the audit objectives you will adopt in relation to the audit of the payroll system of RCAA. **(4 Marks)**

(c) Document the audit procedures you will carry out in relation to the payroll system of RCAA. **(12 Marks)**

(Total 20 Marks)

End of question paper