
CERTIFIED ACCOUNTING TECHNICIAN
LEVEL 2 EXAMINATIONS

L2.5: AUDITING

WEDNESDAY: 5 DECEMBER 2018

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. Show all your workings

QUESTION ONE

Gasabo Supplies Ltd (GSM) is a medium-sized entity located in Kigali. GSM deals in the sale of petroleum products such as fuels, lubricants as well as tyres and other related services. The company has been in operation for two years now. GSM is owned by three brothers of whom one is the general manager but the other two are not involved in the day-to-day running of the business. All the three are directors in the company with equal shareholding.

You are an auditor at JKN & Co and your firm has been approached by GSM to audit their financial statements for the year ended 30 June, 2018. This will be the first audit for GSM. The company has related party transactions as the directors and their related companies trade with GSM.

REQUIRED:

- (a) Explain to the directors the need of having an external audit at GSM. **(6 Marks)**
 - (b) With the exception of acquiring a bank loan, explain to the directors of GSM the benefits of auditing their financial statements. **(6 Marks)**
 - (c) Explain the substantive audit procedures you will carry out in relation to related party transactions. **(8 Marks)**
- (Total 20 Marks)**

QUESTION TWO

Dante International Ltd (DIL) is a freight company dealing in transportation of cargo from overseas to Rwanda. The company has five directors who meet on a quarterly basis. You work with WGF & Co. as an auditor and you are part of the team to audit DIL for the year ended 30 June, 2018.

The following matters were emphasized by management in the pre-audit meeting:

1. WGF& Co. was cautioned about meeting the expectations of DIL.
2. The company acquired a loan from RSK Bank of RWF 400 million and the bank will be glad to receive the audited financial statements in time.
3. DIL has had some issues with the Rwanda Revenue Authority and hopes that WGF & Co. will offer tax advice to ensure full compliance with the income tax laws.
4. DIL's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

REQUIRED:

Explain:

- (a) To your audit team members the public perceptions of the auditor's role. **(6 Marks)**
 - (b) The responsibilities of DIL's management as per Rwanda's companies Act. **(4 Marks)**
 - (c) To the audit supervisor:
 - (i) The audit procedures you will carry out to verify the loan from RSK. **(6 Marks)**
 - (ii) The course of action WGF should take in case of DIL's non-compliance with the Rwanda tax laws. **(4 Marks)**
- (Total 20 Marks)**

QUESTION THREE

You are an audit senior at NHK & Co. an audit firm located in Nyagatare. NHK & Co. has been appointed by the board of directors of Nyagatare Farmers Association Ltd (NFA) for the year ended 30 June 2018.

NFA offers farmers Agriculture loans to farmers to purchase farm inputs/implements, such as, fertilizers, tractors, post-harvest machinery, loan facilities for construction of storage ware houses, etc.

NFA's financial statements for the year ended 30 June 2018 indicate that the company invested in treasury bills of the central bank of RWF. 100 million.

REQUIRED:

Prepare brief notes for the audit team on the following:

- (a) The main tasks that would be involved in planning the audit of NFA. **(10 Marks)**
 - (b) Advantages of audit planning for the audit of NFA. **(4 Marks)**
 - (c) Discuss with your audit team the audit procedures you will carry out to verify the Treasury bill investment of RWF.100 million. **(6 Marks)**
- (Total 20 Marks)**

QUESTION FOUR

Cock Insurance Ltd (CIL) offer insurance services to the general public. CIL banks with UDB Bank where it operates 5 bank accounts in different currencies. UDB Bank is proposing to CIL to adopt on-line banking to save time and resources going to the bank. CIL operates a computerized accounting system.

CIL is a client of your firm, MPL & Co. for the year ended 30 June, 2018. Your audit manager has informed you to prepare for the audit. He has also informed you that the new accounting standard, ISA701 - Communicating Key Audit Matters in the Independent Auditor's Report, is applicable to CIL.

REQUIRED:

- (a) Discuss with the audit manager the assertions made by CIL in relation to bank balances held in UDB bank. **(4 Marks)**
 - (b) Discuss with the audit team:
 - (i) The compliance tests you will carry out on payments and receipts while appraising CIL's internal control system. **(4 Marks)**
 - (ii) The substantive procedures you will carry out on bank balances. **(6 Marks)**
 - (c) Describe the nature of entities that are required to comply with ISA701. **(6 Marks)**
- (Total 20 Marks)**

QUESTION FIVE

Isaro & Co has been appointed the auditor of RwanChem Ltd (RCL) for the year ended 30 June 2018 and your audit manager has informed you that you will be part of the audit team. Isaro & Co. is contemplating whether to hire the services of pharmacists (expert) to be part of the audit team. She/he will be charged with the responsibility of guiding the team on the various aspects of medicines sold by RCL such as, costing, billing, etc.

RCL is in the pharmaceuticals business of selling drugs to the general public. RCL operates 10 pharmacies located in all the provinces of Rwanda. All transactions of all the pharmacies are interlinked using computerised software. Customers order for their drugs/medicine at the counter through the Pharmacist at the counter who takes their orders and prepares a sales order note linked to the computerized stock systems. The sales order note is taken by customer to the cashier at another counter to effect the cash payment. On making the payment by the customer at the cashier, a computerized generated receipt is issued which is then taken back to the pharmacists at the counter who in turn delivers the medicine/drugs to the customer.

REQUIRED:

- (a) Explain why it may be necessary for Isaro & Co. to hire the services of pharmacist (expert). **(4 Marks)**
 - (b) Explain the factors that influence Isaro & Co's reliance on the work of the hired pharmacists (expert). **(6 Marks)**
 - (c) Explain the Information Technology (IT) controls you will expect to find at RCL in regard to its computerized software. **(10 Marks)**
- (Total 20 Marks)**

QUESTION SIX

Delta Wine Ltd (DWL) is a wine distributor in Rwanda. DWL distributes its products to various customers that include supermarkets, wholesalers and retailers. The customers are advanced the products on credit and only pay after making a sale or when they place new orders. DWL's trade receivables at 30 June 2018 stood at RWF.98 million.

DWL operates a computerized accounting system and all transactions are properly recorded in the system. These are also supported by manual payment vouchers filed chronologically.

You are an audit assistant at Ingabire & Co., and have been assigned to audit trade receivables. You intended to use Computer Assisted Audit Techniques. (CAATS)

REQUIRED:

- (a) Explain your audit objectives for the audit of trade receivables of DWL. **(6 Marks)**
 - (b) Explain the substantive audit procedures you will carry out on trade receivables of DWL. **(10 Marks)**
 - (c) Describe some of the information in DWL's computerized accounting system that be extracted from trade receivables using CAATs. **(4 Marks)**
- (Total 20 Marks)**

QUESTION SEVEN

The objective of an audit is for an independent auditor to express an opinion on a set of financial statements. This, therefore, means that the auditor must receive all the information and explanations necessary and carry out all the procedures needed to meet applicable standards. However, the auditor is at risk of issuing an inappropriate audit opinion that is, giving unmodified audit opinion instead of a modified opinion.

ISA 570 (Revised) Going Concern requires that when planning and performing audit procedures, and in evaluating the results, the auditor considers the appropriateness of management's use of the going concern assumption in the preparation of the financial statements. For example it may become apparent as a result of his review of the financial statements as a whole that the entity has going concern challenges and the auditor should consider whether or not the financial statements should have been prepared on a going concern basis.

REQUIRED:

- (a) Explain the meaning of the following:
 - (i) Going concern. **(2 Marks)**
 - (ii) Modified audit opinion. **(2 Marks)**
 - (b) Examine the various indicators of going concern problems of any entity. **(10 Marks)**
 - (c) Explain the various types of modified audit opinion. **(6 Marks)**
- (Total 20 marks)**

