
**CERTIFIED PUBLIC ACCOUNTANT
INTERMEDIATE LEVEL EXAMINATION**

I1.4: AUDITING

FRIDAY: 7 DECEMBER 2018

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** Compulsory Questions while Section B has **four** questions to choose **two**
4. **Five** questions in total are to be attempted.
5. All ICPAR Examination rules and regulations apply

SECTION A (COMPULSORY)

QUESTION ONE

You are an audit senior at Ganza & Co., and your firm has been appointed the auditor of Karekezi and Sons Limited (KSL) for the year ended 30 June, 2018. KSL deals in the manufacture of detergents and toiletries for both domestic and commercial use. KSL is located in Kigali Industrial park. KSL's annual turnover is RWF 500 million.

KSL's products are distributed in the various supermarkets across the country and to individual customers who purchase in bulk from the factory premises.

KSL's employees distribute products using delivery vans to the various supermarkets that pay cash on delivery of the products. The employees deliver cash back to the factory later in the evening. For those who are unable to return in the evening, they can either deliver the cash the following day or bank the cash in KSL's bank account and present the bank slip the following day.

KSL has 7 departments, i.e. Finance, Human Resources, Operations, Procurement, Information Technology (IT), Marketing and Internal Audit. The various heads of the department report to the Chief Executive officer (CEO) who in turn reports to the Board of KSL. KSL has an internal control system, consisting of various components expected of an entity of KSL's size and nature.

You have been assigned to lead the team for the audit of KSL for the year ended 30 June, 2018.

REQUIRED:

Explain to the team, the:

- (a) Various components of internal control expected at KSL. **(8 Marks)**
- (b) Control activities expected at KSL in relation to the cash sales and collections at the factory and at the various supermarkets. **(8 Marks)**
- (c) Control procedure manuals that you would expect to find at KSL. **(4 Marks)**

(Total 20 Marks)

QUESTION TWO

Gatanazi Industries Limited (GIL) deals in manufacture of plastic products such as furniture, utensils, and plastic water bottles/ tanks. Your firm JM & Associates has been appointed auditor of GIL for the year ended 30 June, 2018.

The audit manager has informed you that you will be part of the audit team to audit GIL. At the audit planning meeting, the audit manager emphasized the following:

- The new ISA 701; Communicating Key Audit Matters in the Independent Auditor's Report, requires that JM & Associates determines key audit matters, and having formed an opinion on the financial statements, communicate those matters in the auditor's report. Key audit

matters are those matters that in the auditor's judgment, were of most significance in the audit of the financial statements of the current period.

- The need to spell out clearly in the engagement letter, the respective responsibilities of JM & Associates and those of the directors of GIL in relation to the audit of the financial statements of GIL to avoid any future misunderstandings.
- JM & Associates' interaction with the previous auditor revealed that record keeping at GIL is not to the required standard. Hence the need to carry out detailed tests on all account balances and transactions to avoid the risk of issuing inappropriate audit opinion.

REQUIRED:

Discuss with your audit team members:

- (a) The factors to consider in determining key audit matters. **(4 Marks)**
- (b) JM & Associate's responsibilities for the audit of GIL's financial statements. **(10 Marks)**

- (c) The circumstances that may lead to the modification/ qualification of GIL's audit report. **(6 Marks)**

(Total 20 Marks)

QUESTION THREE

You are the audit senior of Kwizera & Co and are currently planning the audit of Gitonga Contractors Ltd (GCL) for the year ending 30 June, 2018. GCL deals in construction of real estate properties for both commercial and residential purposes.

GCL operates in the construction industry which is highly volatile and the inherit risk is generally assessed as high. This is largely due to the fact that many assumptions and judgments are especially in the costing of materials and valuation of properties.

Determining materiality is therefore key if Kwizera & Co is to give an appropriate audit opinion. The audit team needs to ensure that detailed audit procedures including analytical procedures are carried out for all items that are considered material in GCL's financial statements.

REQUIRED:

- (a) Determine the factors that may influence the inherit risk at GCL. **(10 Marks)**
- (b) Discuss the factors you would consider in determining whether to use analytical review procedures during the audit of GCL. **(6 Marks)**
- (b) Identify the methods that can be used by the audit team in assessing whether or not an item is material during the audit of GCL's financial statements. **(4 Marks)**

(Total 20 Marks)

SECTION B (CHOOSE ANY TWO QUESTIONS)

QUESTION FOUR

Luxurious Motors Limited Rwanda (LML) is a subsidiary of LML International. LML assembles a wide range of vehicles for sale in Rwanda and the Great Lakes region. You are the audit supervisor at AAL & Co., in charge of the audit of RML for the year ending 31 December, 2018.

The following matters were discussed during the pre-audit meeting:

Property, Plant, & Equipment:

LML purchased and disposed of assets during the year in addition to assets held by LML from the previous years. Some of the land is held on lease while the other is held in perpetuity. LML keeps an asset register for all its assets and this will be shared during the audit. The plant was revalued during the year.

Inventory:

LML's inventory constitutes components used in the production of cars; work in progress (WIP) for cars in the production line at the end of the year; and finished cars ready for sale. An inventory count will be carried out at the end of the year and AAL & Co. will be scheduled to attend. AAL intends to use experts in valuing stock and these are scheduled to come from Germany.

REQUIRED:

- (a) Advise the Audit Manager on the matters to be agreed upon with the experts to value stock prior to commencement of their work. **(6 Marks)**
- (b) Describe the procedures the audit team should perform:
- (i) On plant, property & equipment. **(7 Marks)**
 - (ii) During the count of LML's inventory. **(7 Marks)**
- (Total 20 Marks)**

QUESTION FIVE

You work at office of the Auditor General of Rwanda (OAG). You are part of the audit team to audit National Water, a government owned entity, for the year ended 30 June 2018. In a briefing of the audit team by your supervisor, she reminded you that public sector audits have a key role to play in the following:

- safeguarding public resources;
- ensuring proper accountability for funds received by various accounting officers;
- upholding appropriate standards of conduct in public service; and
- helping public services achieve Value for Money (VFM).

REQUIRED:

- (a) Explain to the audit team the main responsibilities of the Auditor General of Rwanda. **(4 Marks)**
 - (b) Examine the factors the audit team should consider to enable them perform their duties effectively and within the budgeted time. **(6 Marks)**
 - (c) Explain the audit methodology the audit team should adopt during an audit of National Water. **(10 Marks)**
- (Total 20 Marks)**

QUESTION SIX

You are an audit senior at BCG & Co and your firm has just been appointed the auditor of Agro Microfinance Limited (AMFL). You are yet to accept the appointment as the previous auditors, YK & Co., were terminated for poor audit execution.

A discussion between the partners of BCG & Co concluded that it may not be necessary to write to the previous auditors since they were dismissed for poor performance.

You will be required to prepare a letter of acceptance and draft an engagement letter for the audit of AMFL.

REQUIRED:

- (a) Describe the factors BCG & Co. should consider prior to accepting the audit engagement of AMFL. **(8 Marks)**
 - (b) Identify the various contents to be included in AMFL's audit engagement letter. **(8 Marks)**
 - (c) Explain the importance of writing to the previous auditor prior to acceptance of an audit engagement **(4 Marks)**
- (Total 20 Marks)**

QUESTION SEVEN

Ngoma Breweries Limited (NBL) is a manufacturer and distributor of beer and non-alcoholic malt beverages. The company has distribution outlets in all the provinces. NBL is experiencing positive sales growth due to the fact that most of its manufacturing processes are information technology (IT) related thus leading to less interrupted production.

To serve their customers better, NBL decided to upgrade the data handling server in the IT department. This, however, did not go well due the fact that during the installation of the new server,

data files for sales were lost. The IT Manager put the blame on the incompatibility of the new technology to the old server and lack of staff training in the use of the new technology.

In the accounts department, there are complaints of loss of important customer information as most of the old computers are being hacked into. All staff share computer passwords and security cameras collapsed. Thus no one can trace the culprits. The department is also accessible to every member of NBL who normally come to use the printers and scanners.

The whole accounts department has two flash disks used to backup information and the discs are usually kept in the finance manager's desk drawer. Computer viruses (malware) are also evident since majority of the staff have laptops accessible to all other department in NBL to access their e-mails.

Your firm KKJ & Co has been appointed to audit the IT system of NBL and the managing has appointed you to lead the audit team.

REQUIRED:

- (a) Explain the general and application IT challenges being faced by NBL. **(10 Marks)**
- (b) Advise NBL on how to mitigate the IT challenges. **(10 Marks)**

(Total 20 Marks)

