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**CERTIFIED PUBLIC ACCOUNTANT**  
**ADVANCED LEVEL 1 EXAMINATIONS**  
**A1.2: AUDIT PRACTICE AND ASSURANCE**  
**SERVICES**

**TUESDAY: 3 DECEMBER 2019**

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**INSTRUCTIONS:**

1. **Time Allowed: 3 hours 45 minutes** (15 minutes reading and 3 hours 30 minutes writing).
2. This examination has **two** sections; **A & B**.
3. Section **A** has **one** Compulsory Question while section B has three optional questions to choose any two
4. In summary attempt **three** questions.
5. Marks allocated to each question are shown at the end of the question.

## **SECTION A**

### **QUESTION ONE**

You are a manager in the audit department of **Kiiza & Co** a firm of Certified Public Accountants located in Rwanda. **Kiiza & Co** has been approached by a potential client **Ikange Ltd** to provide audit services for the financial statements for the year ended 31<sup>st</sup> October 2019. You are also aware that:

- (i) **Ikange Ltd** specialises in the provision of investigation services for corporate companies in and outside Rwanda in highly specialised areas like IT, fraud investigations, security consultancies among others. Ikange Ltd is mainly staffed with a technical team of personnel that include IT fraud specialists, security consultants and ex-military personnel.
- (ii) **Ikange Ltd** is a major service provider to your audit firm specifically in IT and Fraud consultancies.
- (iii) **Ikange Ltd** has recently terminated the services of the previous auditors following significant mis-understandings with the auditors.
- (iv) **Ikange Ltd** with-held the settlement of a large outstanding audit fee for the previous auditors following unresolved issues with the auditors including the accusation of lack of competence of the auditors.
- (v) **Ikange Ltd** is facing a hostile take-over from its major competitor, the **Dasso Group**. Dasso Group is one of your current major audit clients.

**Nguffu Ltd** is an audit client of **Kiiza & Co** and you are planning the audit for its financial statements for the year ended 31 October 2019. Nguffu Ltd specializes in the importation and distribution of wines and spirits in Rwanda. As the audit manager you have noticed the following information:

- a) In recent years, **Nguffu Ltd** has become less profitable due to stiff competition from a large number of supermarkets that provide the public with different types of Wines highly sought for by customers at affordable prices due to significant lower cost of sales.
- b) There is loss of key personnel to competitors, loss of some of their major suppliers, there are also pending customer and employee legal suits due to defects and wrongful dismissals.
- c) A letter has been received from Revenue Authority intending to commence investigation on non-compliance on import tax duties and there is also ongoing investigations by Rwanda standards board for non-compliance to quality standards for their wines.

- d) Due to **Nguffu Ltd's** transportation methods, the company also incurs a significant high cost of importation as a result of using airlines in transporting the wines to Rwanda. The draft financial statements for the year ended 31<sup>st</sup> October 2019 show that the current liabilities exceed the current assets by Rwf 200,000,000.
- e) The major source of finance for the company is a bank loan amounting to Rwf 500,000,000 which is due for repayment in full on 31<sup>st</sup> October 2021. As part of the bank's requirements to provide the loan, Nguffu Ltd is required to provide a satisfactory forecast profit position which will be reviewed by the bank's due diligence team to support the decision for the loan application. "The Directors of Nguffu Ltd have confirmed to you that Nguffu Ltd cannot continue with its plans to regain its previous market share in the highly competitive market without the new loan being negotiated with the bank"
- f) The company is also negotiating with its bankers for replacement of long-term loan of Rwf 1,000,000,000. Ngufu Ltd intends to use some of the loan to reposition itself in the market and to establish the superiority of their wines over those sold in supermarkets.

The board of directors submitted a profit forecast with loan application and is optimistic that their application will be successful, but they don't expect negotiations to be completed before the annual general meeting in September 2020.

Ngufu Ltd informed you that there might be a whistleblower among its staff who can reveal the current situation to the bank, and this can affect the decision to get the loan. Controls on information, libel and defamation laws, and inadequate investigation of whistleblowers' claims can all deter people from speaking out.

The Audit Committee of Nguffu Ltd has been informed about a malpractice involving staff like members of senior management and malpractices like theft of inventories and over-riding of internal controls.

Whistleblowers are less likely to report workplace misconduct when their employers do not provide clear internal reporting channels. And in some settings, whistleblowing carries connotations of betrayal rather than being seen as a benefit to the public. Ultimately, societies, institutions and citizens lose out when there is no one willing to cry foul in the face of corruption

**REQUIRED:**

- a) Using the information provided explain the effects of each of the three pieces of information then, describe the matters you would consider in deciding to accept **Ikange Ltd** as an audit client of **Kiiza & Co.** (14 Marks)
  - b) If Kiiza & Co was to accept the engagement as auditors of Ikange Ltd, describe the actions Kiiza & Co should take in line with the professional and engagement clearance procedures before starting to engage as auditors of Ikange Ltd" (5 Marks)
  - c) Using the information provided, explain the matters you should consider and recommend the planned audit procedures you should conduct to assess the going concern status of **Nguffu Ltd.** (15 Marks)
  - d) Justify the impact of the disclosure of the Going concern status of **Nguffu Ltd** on the auditor's report and opinion for the financial statements for the year ended 31 December 2019" (9 Marks)
  - e) Advice the management of Ngufu Ltd the essence of whistleblowers. (7 Marks)
- (Total 50 Marks)**

## **SECTION B**

**QUESTION TWO.**

Ruli Enterprises Ltd has been trading for over 15 years selling insurance related products and has recently become a listed company on Rwanda Stock Exchange. In accordance with corporate governance principles, Ruli Enterprises maintains a small internal audit department. The directors felt that the team needs to increase in size and specialist skills are required, but they are wondering whether to recruit more internal auditors, or to outsource the whole function to their external auditor's **Centum CPAs**.

Ruli enterprises Ltd is required to comply with corporate governance principles in order to maintain its listing status; hence the finance director has undertaken a review of whether or not the company complies with the Corporate Governance principles for listed companies.

Bill Hakizimana is the chairman BoD of Ruli Enterprises Ltd, until last year he was the chief executive officer of the same company. Bill is unsure if Ruli Enterprises needs more non-executive directors as there are currently three non-executive directors out of eight board

members. He is considering appointing one of his close friends, who is a retired chief executive of a manufacturing company as a non-executive director.

The finance director, Jesse Kamanzi, decides on the amount of remuneration each director is paid. Currently all remunerations are in form of an annual bonus based on profits. Jesse is considering setting up an audit committee but has not undertaken this task yet as she is very busy.

A new sales director was appointed nine months ago. He is yet to undertake his board training as this is normally provided by chief executive and this role of CEO is currently vacant.

There are a large number of shareholders and therefore the directors believe that it is impractical and too costly to hold an annual general meeting of shareholders. Instead the board has suggested sending out Financial Statements and any shareholders 'resolutions will be voted through email.

**REQUIRED:**

In respect of corporate governance for **Ruli Enterprises Ltd**

- i. Identify and Evaluate the Corporate Governance weaknesses faced by Ruli Enterprises Ltd  
(12 Marks)
  - ii. Explain the recommendations that should be adopted by the company to address the weaknesses mentioned in (i) above  
(13 Marks)
- (Total 25 marks)**

**QUESTION THREE**

GISHOMA Ltd operates in the coal mining in BUGARAMA. It owns hundred mines across the country. The mines are used to extract coal from, and then sold to customers who are energy suppliers.

Coal mining companies must have licence from Rwanda Mining Board (RMB). RMB monitors the environmental impact of coal mining operations. All coal mines must operate in compliance with strict health and safety regulations as provided by RMB.

You are the audit manager in Alphonse and Co (A&C), responsible for the audit of GISHOMA Ltd. You are currently reviewing the audit working papers for the audit of the financial statements of GISHOMA Ltd for the year ended 31<sup>st</sup> August 2019 as part of the audit completion procedures prior to the issue of the final audit report. The company's Draft Financial Statements present profit before tax of Rwf 8 million and total assets of Rwf 175

million. The audit senior has provided you with the following information obtained during the conduct of the audit:

### **Accident at the GACU Mine**

On 15<sup>th</sup> August 2019, a severe accident took place at the largest mining site of the company, the GACU Mine where several tunnels in the mine collapsed and there was flooding in the other remaining tunnels. The accident caused 30% of Mine being inaccessible. For safety reasons, a decision was taken to permanently close operation of all the tunnels at the GACU Mine.

The management of GISHOMA Ltd predicts that the remaining part of GACU Mine that constitutes 70% can continue to be operational when they put forward some improvements to meet health and safety regulations.

The report produced indicated no injuries during the accident, but several residential properties were damaged in the local area.

A group of researchers was assigned to assess if the properties can be repaired or demolished. To help with the conduct of the assessment of the damage, (20) twenty residents were relocated to rental properties in the local area with all the associated costs incurred by GISHOMA Ltd. The GACU Mine was acquired several years back and is recognized in the draft Statement of Financial Position at Rwf 10 million.

Due to the fact that there were no injured company staffs in the accident, the management of GISHOMA Ltd has decided not to report the accident to RMB

### **REQUIRED:**

In relation to the accident at GACU Mine

- a) (i) Comment on the matters which you should consider in reviewing the audit working papers and financial statements of GISHOMA Ltd. **(8 marks)**  
(ii) Describe the audit evidence you should expect to find in your review of the audit working papers related to the audit of the financial statements of GISHOMA Ltd **(10 marks)**
- b) In respect to the decision of the management not to report the accident to RMB, discuss the responsibilities of Alphonse and Co and recommend the actions which should be taken by the Alphonse &Co. **(7 marks)**

**(Total 25 Marks)**

## QUESTION FOUR

On 16<sup>th</sup> August 2019 ICPAR issued circular No: 001/08/19

### **RE: Application of International Standard on Auditing ISA 701 Communicating Key Audit Matters in the Independent Auditor's Report.**

The international standards on auditing (ISA) NO: 701 “communicating key audit matters in the independent auditor’s report; a mandatory requirement to all listed companies to communicate key audit matters.

In the auditor’s report key audit matters (KAM) are determined as” those matters that in auditor’s professional judgement were of most significance in the audit of financial statements of the current period. Key audit matter is selected from matters communicated with those charged with governance.

This standard also applies when the auditor is required by law or regulation to communicate key audit matters in the auditor’s report. Article 3 of the Law number 11/2008 establishing ICPAR provides that the pronouncements of the International Auditing and Assurance Standards Board (IAASB) e.g. the ISAs shall be adopted by the ICPAR without any modifications including the effective dates of these pronouncements.

### **REQUIRED:**

- a) Briefly explain how the auditor determines a Key Audit Matter (KAM). **(3 Marks)**
- b) What shall be included in the description of each KAM in the auditor’s report?  
**(12 Marks)**
- c) What are the essential features of the language used by the auditor in the description of a KAM?  
**(4 Marks)**
- d) Justify with appropriate examples, which types of entities in Rwanda requires the auditor to include a KAM section in the auditor's report?  
**(6 Marks)**

**(Total 25 Marks)**

