
**CERTIFIED PUBLIC ACCOUNTANT
INTERMEDIATE LEVEL EXAMINATION**

II.4: AUDITING

FRIDAY: 6 DECEMBER 2019

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 a senior auditor at **RUTEZIMFURA&CO**, and your firm has been appointed by the Board of directors of **Gakondo company ltd**, to audit its financial statements for the year ended 31st December 2018. Gakondo company ltd is a manufacturer of toilet papers which it distributes to different customers in Kigali city and upcountry.

Gakondo company has a computerised accounting system which is used to record all transactions relating to sales of its products. However, in some areas like inventory transactions are manually recorded in an excel sheet. During the audit exercise, you discovered that amount recorded in excel was not correctly recorded in the accounting system regarding the inventory whereby Frw 50,000 was omitted in the financial statements. Gakondo company ltd had total assets of Frw 50 million, total revenues of Frw 1 million and profit before tax of Frw 100,000 for the year ended 31st December 2018. During audit exercise of Gakondo company, you may find different risks associated with the company like audit risks, risk of material misstatements as well as business risks.

REQUIRED:

- a) Explain the components of audit risk and for each component, state an example of factor which can result in increased audit risk **(6 marks)**
- b) With reference to ISA 315 Understanding the entity and its environment and assessing the risks of material misstatement, an important standard to the auditor, elaborate on why and how Rutezimfura &Co need to gain an understanding of Gakondo company ltd. **(4 marks)**
- c) Calculate and comment on the materiality of Frw 50,000 omitted in the financial statements **(4 marks)**
- d) ISA 330 The auditor's procedures in response to assessed risks establishes and provides guidance on determining overall responses and designing of further audit procedures to respond to the assessed risks of material misstatement.

REQUIRED:

- i. Give any three overall responses to assessed risks at financial statement level **(3 marks)**
 - ii. What are the factors to consider in designing further audit procedures during the audit work of Gakondo company ltd.? **(3 marks)**
- (Total 20 marks)**

QUESTION TWO

Kazura software company ltd (KSCL) is a software solutions company located in Kimironko market in Kigali city. It has other branches in southern province and western province of Rwanda and has 5 offices throughout the country. KSCL is an audit client of your firm, Gafumbwe & Co for the last 3 years. Your audit manager has assigned you on the current audit assignment; and you will be part of the team to draft audit report for Kazura software company ltd for its financial statements for the year ended 31st March 2019.

REQUIRED:

- a) List and explain the basic elements of the draft audit report to present to audit manager for the audit work of Kazura Software Company Ltd. **(14 marks)**
 - b) Discuss the matters that may give rise to the modification of audit report of Kazura software company ltd. **(6 marks)**
- (Total 20 marks)**

QUESTION THREE

You have been chosen by your audit senior to attend together a meeting to discuss with your team mates on audit work as you are newly recruited. They want to know whether you have necessary skills and knowledge about audit profession. The following questions are put up to you to answer to your audit senior.

- a) Discuss the appointment and the remuneration of the auditors **(5 marks)**
 - b) Discuss the ways through which auditors can resign or be removed from the audit work **(5 marks)**
 - c) Explain auditor's professional liability under:
 - i) Statute law **(2.5 marks)**
 - ii) Tort of negligence **(2.5 marks)**
 - d) i) Define the term engagement letter and explain its purpose **(2 marks)**
ii) What are the contents of the engagement letter? **(3 marks)**
- (Total 20 marks)**

SECTION B

QUESTION FOUR

Mucuruzi company Ltd (MCL) is a cooking oil company that operates in Kigali city in Nyarugenge District. The company produces edible oil of 1000 litres per day before delivery to different customers, the finished goods are kept in a convenient store. MCL has incurred a net loss of Frw 100,000 for the year ended June 30th, 2019 and salaries & wages contributed much to this result.

You are an audit manager of Garuka&co (GC) and your firm has been appointed at annual General meeting of MCL to conduct an audit of financial statements for the year ended June 30th,2019.

REQUIRED:

- a) Describe audit tests to be conducted on:
 - i) Payroll (3 marks)
 - ii) Inventory (2 marks)
 - b) With the help of examples, explain adjusting and non-adjusting events which you are likely to meet during audit of MCL. (5 marks)
 - c) Explain how management representation can be necessary to you during the audit work of MCL (5 marks)
 - d) Explain why during your audit work of MCL you may need the work of an expert. (5 marks)
- (Total 20 marks)**

QUESTION FIVE

Public sector audit has a key role to play in safeguarding public money, ensuring proper accountability, upholding appropriate standards of conduct in public services and help public services achieve value for money.

REQUIRED:

- a) Discuss specific considerations in regard of public sector audit work. (10 marks)
- b) Explain the responsibilities of the auditor general and state two institutions which auditor general reports to (5 marks)

- c) The code of the best practice of corporate governance stipulates the practice that the company should follow.

REQUIRED:

State the roles and responsibilities of audit committees.

(5 marks)

(Total 20 marks)

QUESTION SIX

Gakire coffee company Ltd (GCCL) is a roasted coffee business company which is located in Gatsibo District Eastern province of Rwanda. GCCL has 3 departments namely production department, sales and marketing department and finance department. GCCL's financial year ends on December 31st.

GCCL packs its coffee in the 200gr, 500gr, 1 kg to sell the coffee to different customers around the country and abroad. To export the coffee GCCL charge Frw 7,300 and on local market Frw 7000. GCCL does not only sell on cash but also on credit for only the local customers.

Because Gakire company wanted to penetrate the market, it tried to facilitate every customer with intention to partner in the business. Only the customer comes to the office and gives his/her contact details and the quantity of coffee he/she wants on credit. No contract is signed between the parties. GCCL does not even give the credit terms due to the trust in its clients.

GCCL deliver coffee to customers and only the delivery note is given to the customer. The distant customers receive coffee and pay later.

GCCL has the system of collecting the payments from the customers using the company's vehicle and the sales person can receive cash /cheque paid by customers without any receipt of payment given to the clients. The sales person remits the cash /cheque received not later than the following day to the finance department.

The accountant in finance department records the amounts received in the accounting system to clear the customer statement.

The reconciliation of client's accounts is done once in a quarter.

REQUIRED:

- a) Identify and explain internal deficiencies in place over receivables in Gakire coffee company Ltd **(10 marks)**
- b) Provide recommendations on how GCCL can improve internal controls over receivables.

(10 marks)

(Total 20 marks)

QUESTION SEVEN

In a modern computerised environment, computer auditing is necessary in a number of ways.

Internal controls in computerised environment includes both manual procedures and procedures designed into computer programs. Such control procedures comprises of two types of control, general controls and application controls.

REQUIRED:

- a) i) Define the term application control and give its purpose. **(2 marks)**
ii) Describe application controls that may be done in computerised organisation and give an example of each. **(10 marks)**
- b) Explain the potential advantages and disadvantages of using computer assisted audit techniques (CAATs). **(8 marks)**

