



ICPAR
Unlimited possibilities

**CERTIFIED PUBLIC ACCOUNTANT
INTERMEDIATE LEVEL EXAMINATIONS**

11.4 AUDITING

DATE: FRIDAY, 29 JULY 2022

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 three questions to choose two**
- 4. In summary attempt FIVE questions**
- 5. Question paper should not be taken out of the examination room**

SECTION A

QUESTION ONE

Kamali & Brothers Company Ltd (KBC) is one of the fastest growing businesses in the small and medium enterprises (SME) category in Rwanda. It was founded in 2015 by three brothers and deals with sales and distribution of various agricultural products for the local and regional markets.

Its founding member and Managing Director, Kamali graduated from high school majoring in accounting before starting the business. The company like many other SMEs in the country faces challenges relating to weak internal controls and lack of professional advice from financial professionals and corporate governance experts which may be due to limited resources and lack of awareness.

Since its establishment it has never had any statutory or non-statutory audit. Despite growth in revenues over the years they have not reached the level required to have a statutory audit from a professional accountant. There is no board of directors. Its structure is composed of the Managing Director; one accountant who studied biology at university; a receptionist and sales agents who work in the distribution. The receipts and payments for the Company are sometimes mixed and channeled either via the company's bank accounts, mobile money account or in cash to the company or the Managing Director's accounts.

Kamali has approached you as a knowledgeable CPA student for professional advice on how to mitigate the deficiencies mentioned above hence to ensure the existing growth is maintained.

Required:

- a) Explain to Kamali five advantages arising from a non-statutory audit to a small or medium size business** (5 Marks)
 - b) Explain the concept of corporate governance pillars and justify why KBC should adopt them.** (12 Marks)
 - c) Summarize ICPAR's role in the regulation of the accountancy profession in Rwanda.** (3 Marks)
- (Total: 20 Marks)**

QUESTION TWO

Your audit firm BCD Partners CPA Ltd was recently appointed by Byukusenge Company Ltd to audit its financial statements for the year ended 31 December 2021. The Company manufactures and distributes construction materials to the local market specifically Kigali.

Your audit manager has informed you that previous audit was not properly concluded as it ended in disagreement with the previous auditor. This was to the extent that the audit report was not signed. He has emphasized that proper acceptance and continuance procedures need to be properly done before accepting this Company as a new audit client. Your firm has performed acceptance and continuance and has taken on the client.

After completing your field work, you have identified a material misstatement on inventory; however, the Company's management has refused to adjust the misstatement and they are threatening to fire your audit firm.

Required:

- a) Clearly explain the procedures to appoint auditors in line with Rwanda's Company Act.** (4 Marks)
- b) Describe the required acceptance procedures to be undertaken before accepting a new audit client** (10 Marks)
- c) Identify the required procedures for removal, replacement or resignation of BCD Partners CPA Ltd should the disagreement with the client persist.** (6 Marks)

(Total: 20 Marks)

QUESTION THREE

ISA 315 states that the auditor shall identify and assess the risks of material misstatement at the financial statement level and the assertion level for classes of transactions, account balances and disclosures.

You are the Audit Supervisor at XYZ CPAs Ltd and you were assigned to lead the audit team for the audit of Kalembure Co Ltd. financial statements for the year ended 31 December 2021. Kalembure Co Ltd produces juices and other refreshments drinks for its market that spans across the country and in the region.

Your audit manager informed you about some of the audit risks that arose during the period under audit as summarized below:

- A material inventory of FRW 100 million was found obsolete and partly damaged after the year end.

- A refurbishment of FRW 150 million, which amounts to 3% of total assets was booked as an expenditure. The management was not sure whether this was revenue or capital expenditure.
- One of the major customers for Kalembure Co Ltd is in the process of being declared bankrupt and owes a material receivable balance.
- There was a borrowing of a loan from a local bank and the company has not dully paid its instalments for the last 3 months from December 2021 to February 2022. The bank is threatening to report Kalembure Co Ltd to the Credit Reference Bureau (CRB) for default.
- The Board of Directors had committed to give a bonus of 10% of annual salary to all staff if the company's revenue grows by 8% in the year under audit.

Required:

- a) State the steps you should take as an auditor to identify and assess the risks of material misstatement at the financial statement level and the assertion level. (4 Marks)**
- b) Discuss your responses to the risks of material misstatements identified at Kalembure Co Ltd during your audit planning. (10 Marks)**
- c) At the completion of your audit work, your Audit Partner has requested you to review the work done by junior audit team members and to ensure that the audit file and working papers are properly archived after the completion of audit. Describe at least 4 audit procedures to be conducted while reviewing the work of junior audit team members. (6 Marks)**

(Total: 20 Marks)

SECTION B

QUESTION FOUR

ABC Manufacturing Company Ltd is your audit client based in Bugesera District, and specializes in the production of steel and other construction materials for Rwanda and regional market. Your audit firm is NMP Associates Ltd and you are part of the audit team for the audit of financial statements for the year ending 31 March 2022.

Before the audit commences, your Audit Manager has briefed you and your team that the following happened during the year:

- ABC Manufacturing Company Ltd acquired a loan of FRW 100 million from the local bank to boost its production capacity.
- One of the main clients has complained that the company delivered steel worth FRW 15 million which did not meet the quality standards. He requested the company take back the delivery and replace it. However, they refused to do so and now the client is threatening to take legal action against ABC Manufacturing Company Ltd.
- The local community where ABC Manufacturing Company Ltd production is based have complained to the company and local authority over the smoke emission and other nuisance alleging that ABC refused to address their concerns.
- The community members have now decided to bring the issues to the attention of Rwanda Environment Management Authority (REMA) and the courts of law. They suggest ABC Manufacturing Company Ltd should compensate by buying their land so that they can shift to different area.

Required:

a) Explain at least 5 substantive audit procedures to be conducted over ABC Manufacturing Company Ltd Company's acquisition of the loan. (5 Marks)

b) In with IAS 37 Provisions, contingent liabilities and contingent assets, clearly explain the following

i) Define what is provision and contingent liability. (2 Marks)

ii) Audit procedures to be carried audit provisions and contingent liabilities for ABC Manufacturing Company Ltd (10 Marks)

iii) Give other examples of accounting provisions and contingent liabilities (3 Marks)

(Total: 20 Marks)

QUESTION FIVE

GCK Rwanda Ltd is a subsidiary of GCK International, a global renowned company that produces chemical products, including pesticides and other cleaning products. Your audit firm “KPC CPAs Ltd was contracted by GCK International to audit The GCK Rwanda Ltd’s financial statements for the year ended on 31 December 2021.

You are an audit senior for this assignment and you were briefed by your audit manager that the Company uses a mix of chemicals and other semi-finished raw materials to produce its products. Some of the raw materials are self-made within the Company through processing of semi-finished raw materials or with mix with other chemicals.

During the inventory physical count before the year end which you attended, you noted that some chemicals were sophisticated and made of gas and you did not have capabilities of estimating their quantities or qualities. After discussing this with your audit manager, you conclude to use an expert to assist to quantify those sophisticated chemicals for audit evidence purpose.

After the year end but before the commencement of the audit exercise, the following events took place.

- On 1 February 2022, it was found that one of the accountants had been fraudulently diverting some small amounts of money to his account from June to December 2021. While they were still investigating this, the management sacked the accountant and his final pay was withheld.
- A supplier has sued the company for a contract breach because of the goods delivered on 2 January 2022 but were refused by the Company due to poor quality and did not meet the standards. The Company’s lawyer says that the supplier will not likely win the case and court will hear the case in July 2022. Your audit report is due on 28 February 2022.
- A material inventory was destroyed due to an employee error of chemical mix up on 10 January 2022.

Since January 2022, a new competitor entered the Rwandan market with similar products as the ones offered by GCK Rwanda Ltd. The projections by the chief account but which were not accepted by the management show that this will reduce GCK Rwanda revenue by 30% and therefore, could threaten its going concern. GCK International has provided written representation that it will support GCK Rwanda Ltd regardless of any outcome in the foreseeable future.

Required:

a) Describe any three considerations that were made by your audit manager in determining the use of expert on inventory valuation. Give examples of other areas where a work of expert can be used in audit. (6 Marks)

b) i) In line with ISA 560: Define subsequent events and differentiate adjusting and non-adjusting events. (2 Marks)

ii) Discuss the subsequent events identified at GCK Rwanda Ltd and show their effect on the Company's financial statements for the year ended 31 December 2021. (6 Marks)

c) ISA 240 requires the auditor to obtain written representations from management and those charged with governance. Explain the content of the GCK Rwanda Ltd management representation as required by ISA 240. (6 Marks)

(Total: 20 Marks)

QUESTION SIX

The office of Auditor General of Rwanda (OAG) was established in 1998 and began its operations in 2000. The 2003 Constitution of the Republic of Rwanda recognized OAG as the Supreme Audit Institution and defined it as an independent office vested with legal personality, financial and administrative autonomy. OAG is also a member of the International Organisation of Supreme Audit Institutions (INTOSAI), which operates as a support organisation for the external government audit community.

Law n° 79/2013 of 11/09/2013 determines the mission, organization and functioning of the Office of the Auditor General of state finances. As required by the same law, the reports prepared by the Auditor General shall be submitted to the Parliament and considered by the Committee in charge of public accounts also known as Public Accounts Committee (PAC).

In the recent years, it has been noted by the PAC and the public in general that certain state-owned enterprises and public institutions have continued to have modified audit reports with issues relating to mismanagement of public funds, poor planning and lack of accountability – which is one of the pillars of Rwanda's National Strategy for Transformation (NST 1). The PAC and the public have continued to show concerns and dissatisfaction in those institutions that show no improvements in accountability and in addressing the auditor general audit issues raised.

Required:

a) Describe the mission of the Office of Auditor General as per the constitution and law no. 79/2013 of 11/09/2013. (6 Marks)

b) As a CPA student, identify the main audit issues that are generally reported by the Auditor General and discuss how concerned public institutions can address them.

(10 Marks)

c) State the main objectives of international Organisation of Supreme Audit Institutions (INTOSAI) and show how it assists national supreme audit institutions.

(4 Marks)

(Total: 20 Marks)

End of question paper