
**CERTIFIED PUBLIC ACCOUNTANT
INTERMEDIATE LEVEL EXAMINATIONS**

11.4: AUDITING

THURSDAY: 11 JUNE 2015

INSTRUCTIONS:

- 1. Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
- This Examination is divided into two sections (A & B)
- Section A has **three (3)** Compulsory Questions while Section B has four (4) questions to choose **two (2)**
- Five (5)** questions in total are to be attempted.
- All iCPAR Examination rules and regulations apply

Section A (Attempt all questions in this section)

QUESTION ONE

Suppose you are the audit manager of a firm auditing BISOKE and you have been asked by the partner in charge of the audit to consider your firm's audit responsibilities in relation to subsequent events, and the audit work you will carry out on these matters.

REQUIRED:

- a) Describe the responsibilities of the auditors for detecting misstatements in the financial statements during the following periods:
 - i) From the period-end to the date of the auditor's report; **(2 Marks)**
 - ii) From the date of the auditor's report to the issue of the financial statements; **(2 Marks)**
 - iii) After the date the financial statements are issued. **(2 Marks)**
- b) Describe the audit work you will carry out in the period (a) (i) above which involves consideration of subsequent events. **(10 Marks)**
- c) Describe the work you will carry out in period (a) (ii) above to ensure no adjustments are required to the financial statements.
- d) Assume that the date is now 24th March 2015, the financial statements and the audit report for the year ended 31st December 2014 have just been signed and the annual general meeting is to take place 15th April 2014.

Today, the medias reported that the company is in breach of environmental legislation and a fine of Frw 250,000,000 will be levied on the company. The amount is material to the financial statement.

Required:

- Explain the additional work the auditors should carry out in respect of this fine. **(4 Marks)**
(Total: 20 Marks)

QUESTION TWO

Computer security is of vital importance not only to the accountant in industry but also to the accountant in practice who may be advising his client as to suitable security controls or who may be auditing a computer system. Security is the means by which losses are controlled and therefore involves the identification of risks and the institution of measures to either prevent such risks entirely or to reduce their impact.

REQUIRED:

- (a) State four areas of risk which may arise in relation to a computer system and in each case explain one factor which could lead to the system being exposed to such risk. **(8 Marks)**
 - (b) Describe the different forms of control which should be instituted to safeguard against computer security risks. **(12 Marks)**
- (Total 20 Marks)**

QUESTION THREE

The Government of Rwanda has been undertaking a number of key reforms in Public Financial Management and these reforms are in line with the objectives of vision 2020 and aimed at ensuring an efficient, effective and accountable use of public resources as a basis for economic development and poverty eradication through improved service delivery.

In that context, the Ministry of Finance and Economic Planning (MINECOFIN) in 2010 introduced the use of Integrated Financial Management Information System (IFMIS) in Central Government Institutions and Districts and currently the system has been extended to other Government Entities and Projects. Meanwhile,

the Ministry of Public Service and Labor is leading the use of Integrated Personnel and Payroll Information System - IPPIS for payroll of public servants.

Your audit firm has been hired by the government of Rwanda to audit the payroll system for a number of selected government entities.

REQUIRED:

- a) Explain four ways in which the use of a computerized payroll system in Government entities would affect your work as the auditor. **(8 Marks)**
- b) Explain three controls which should be instituted by the client to ensure that only authorised persons are allowed access to information on personal files and to input updates for the calculation of wages. **(6 Marks)**
- c) Outline how audit tests could be performed “around the computer” in relation to the client’s payroll. **(4 Marks)**
- d) List any two fraudulent activities that may be perpetrated in relation to MIFOTRA’s payroll system. **(2 Marks)**

Section B (Attempt ANY TWO questions in this section)

QUESTION FOUR

Rurangwa Ltd is a private company brewing and selling wines from various fruits. Customers are supplied weekly and the staff in charge of distribution negotiate with clients the time of payment and the money is paid to the staff who in return deposit the money into the bank account of the company. The Staff are required to report monthly on the status of receivables. Following the weaknesses in internal controls over ordering and granting of credit; dispatching and invoicing and transactions processing and credit control, the company has experienced a large amount of receivables.

REQUIRED:

- a) Identify control objectives that should be established for the above noted areas of weaknesses. **(10 Marks)**
 - b) Identify control activities that may alleviate deficiencies in the above company’s sales system. **(10 Marks)**
- (Total 20 Marks)**

QUESTION FIVE

- a) Auditors are frequently required to provide assurance for a range of non-audit engagements

REQUIRED:

List and explain the elements of an assurance engagement. **(5 Marks)**

- b) You have recently been appointed auditor of Kigali Supermarket Group, a company which owns and runs number of supermarkets. The company has an established internal audit department whose staff operate from the head office and visit the supermarkets. Each supermarket stocks thousands of items at any one moment and using computer tracking, the quantity of products in stock or when stocks is out is established.

REQUIRED:

Illustrate how CAATs (Computer Assisted Audit Techniques) can be used for the audit of Kigali Supermarket Group **(15 Marks)**

(Total 20 Marks)

QUESTION SIX

- a) Explain the difference between the interim audit and final audit. **(4 Marks)**
- b) You are the senior in charge of the audit of Kigali Bakery Ltd for the year ending 31 January 2015 and are currently planning the year-end audit. Kigali Bakery specializes in production of high quality bread of various kinds.

During the interim audit, you noted that in the economic down-turn, the company has suffered as its cost is increasing and its prices have been higher than its competitors because of lower production run. One indicator of problems facing the company is that it has consistently used bank overdraft facility to finance its activities.

At the time of the interim audit, you have discussed with the company management what actions were being taken to improve the liquidity of the company and you were informed that the company plans to expand its facilities for producing white bread as this line had maintained its market share. The company has asked its bank for a loan to finance the expansion and also to maintain its working capital generally.

To support its request for a loan, the company has prepared a cash flow forecast for two years from the end of the reporting cycle and the internal audit department has reported on the forecast to the board of directors. However, the bank has said it would like a report from external audit to confirm the accuracy of forecast. Following this request the company has asked you to examine the cash flow forecast and then to report to the bank.

REQUIRED:

- i) Describe tree procedures you would adopt in your examination of cash flow forecast. **(10 Marks)**
- ii) Explain the kind of assurance you could give in the context of the request by the bank. **(6 Marks)**

(Total 20 Marks)

QUESTION SEVEN

Kigali Holdings Co has sales income of Frw 600 million and employs 500 people in 20 different locations. Kigali Holdings Co provides various financial services from pension and investment, advice to individuals, to maintaining cash books and cash forecasting in small and medium sized companies. The company is owned by six shareholders, who belong to the same family. It is not listed on the stock exchange and shareholders have no intention of applying for listing, however, an annual audit is required by statute and additional regulation of financial services sector is expected in the near future.

Most employees are provided with on-line real-time computer systems, which present financial and stock market information to enable the employees to provide up-to date advice to their clients. Accounting department records income, which is based on fees generated from investment advice; expenditure is mainly fixed, being salaries, office rent, lighting and heating etc internal control systems are limited. Directors tend to trust staff and are more concerned with making profits than implementing detailed controls.

Four of the shareholders are board members, with one member being the Chairman and Chief Executive Officer. The financial accountant is not qualified, although he has many years' of experience in preparing financial statements.

REQUIRED:

Discuss four reasons for and against having an internal audit department in Kigali Holdings Co.

(Total 20 Marks)

End of question paper