
CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 2 EXAMINATION

L2.5: AUDITING

WEDNESDAY: 08 JUNE 2016

INSTRUCTIONS:

- 1. Time Allowed: 3 hours 15 minutes (15 minutes reading and 3 hours writing).**
- 2. This examination has seven questions and only five questions are to be attempted.**
- 3. Marks allocated to each question are shown at the end of the question.**

QUESTION ONE

Rwanda Properties Limited (RPL) was incorporated in 2005 and is in the business of letting out commercial and residential properties in Kigali. The company has 5 commercial and 20 residential properties for letting out in the city centre.

In a weekly meeting of CBR & Co, a firm of Certified Public Accountants, the audit supervisor informed staff that RPL had approached the firm to carry out their audit for the year ended 31 December 2015.

Below is an extract of the company's financial statements.

Statement of Profit and Loss

	2015	2014
	Frw '000'	Frw '000'
Total income	12,000,000	10,000,000
Profit before tax	700,000	625,000
Net profit	450,000	300,000

Statement of Financial Position

	2015	2014
	Frw '000'	Frw '000'
Non-current assets	20,000,000	19,000,000
Current assets	500,000	400,000
Total assets	20,500,000	19,400,000
Total equity	1,000,000	1,000,000
Non-current liabilities	15,500,000	16,500,000
Current liabilities	4,000,000	1,900,000
Total Equity and Liabilities	20,500,000	19,400,000

You are an audit assistant at CBR & Co, and the audit supervisor has informed you that you will be involved in the audit of RPL. You are required to attend a pre-audit meeting which is to discuss the forthcoming audit of the company.

Required:

- Explain the matters the audit team should consider to gain an understanding of Rwanda Properties Limited and its operational environment. **(8 Marks)**
- Advise your audit team on the expected issues to be included on the agenda for the pre-audit meeting with the management of Rwanda Properties Limited. **(8 Marks)**
- Compute materiality at the planning stage for the audit of Rwanda Properties Limited and discuss your results with the audit team. **(4 Marks)**

(Total 20 Marks)

QUESTION TWO

Kigali Group of Hotels Limited (KGHL) runs a hotel in Kigali and two other hotels in tourist game parks. The group's internal controls have not been strong enough and this has resulted into fraud and misappropriation of the company's assets by employees.

Your audit firm KWC & Co, has been approached by the management of KGHL seeking advice on how to formulate effective internal controls in the finance and accounting department. The audit supervisor has asked you to write a report to present in the pre audit meeting.

Required:

In your report, you are expected to:

- (a) Identify the objectives of having internal controls in the finance and accounting department of Kigali Group of Hotels Limited. **(2 Marks)**
 - (b) Identify and explain six control procedures KWC & Co would recommend to Kigali Group of Hotels Limited to achieve the internal control objectives. **(12 Marks)**
 - (c) Explain the meaning of:
 - (i) Control activities **(2 Marks)**
 - (ii) Control procedures **(2 Marks)**
 - (iii) Monitoring procedures **(2 Marks)**
- (Total 20 Marks)**

QUESTION THREE

You are an audit senior at RWK & Co a firm of Certified Public Accountants. Your firm has been approached by the management of DP Insurance Company Limited (DPICL) seeking the provision of audit services following the end of term of office of the current auditors. DPICL has been in the insurance business since the year 2000. The Insurance Regulatory Authority requires rotation of auditors every 4 years for all insurance companies.

During the staff meeting, the engagement partner informed staff that the insurance business was unique and its auditing team needed competent and qualified personnel. He also mentioned that there was a need to review whether the firm should take on the audit of DPICL.

Required:

- (a) Discuss the nature of information that should be obtained by RWK & Co, before accepting the audit of DP Insurance Company Limited. **(10 Marks)**
 - (b) Explain five matters that the firm should consider while assembling the engagement team for the audit of DP Insurance Company Limited. **(10 Marks)**
- (Total 20 Marks)**

QUESTION FOUR

The purpose of ISA 500 Audit Evidence; is to establish standards and provide guidance on what constitutes audit evidence in the audit of financial statements; the quantity and quality of audit evidence to be obtained; and audit procedures that auditors use for obtaining that evidence.

Required:

- (a) Identify four factors that influence the auditor's judgment in regard to sufficient appropriate audit evidence. **(6 Marks)**
- (b) Explain five factors that influence the reliability of audit evidence. **(10 Marks)**
- (c) In gathering audit evidence, the services of an expert may be necessary. Identify four sources from which the auditor may obtain information regarding the competence, capacity and objectivity of an expert. **(4 Marks)**

(Total 20 Marks)

QUESTION FIVE

Mashami completed his secondary education in 2014 and has registered as a student for the Certified Accounting Technician course of Rwanda. While in the library one day, he overheard some students talking about the duties of an auditor; requirements of becoming an auditor; regulation of auditors; and the responsibility of auditors and management for financial statements. The students concluded that all auditors are the same whether external or internal.

Mashami is aware that you are due to sit for your CAT L2.5 Auditing examination and has approached you so that you can help him understand these issues.

Required:

Explain the:

- (a) Duties of an auditor to shareholders at an annual general meeting. **(2 Marks)**
- (b) Six requirements of becoming an auditor in Rwanda. **(6 Marks)**
- (c) Responsibilities of management/directors for the financial statements. **(2 Marks)**
- (d) Similarities between internal and external audits. **(10Marks)**

(Total 20 Marks)

QUESTION SIX

- (a) The code of ethics for professional accountants highlights conflict of interest as one of the threats to the independence of accountants. Conflict of interest may arise in many forms.

Required:

- (i) Identify five circumstances that may give rise to conflict of interest. **(5 Marks)**
- (ii) Explain five ways in which auditors can safeguard against conflict of interest. **(10 Marks)**
- (b) A management letter is one of the reports written by the auditors that are presented together with the financial report to shareholders.

Required:

Explain the purpose of a management letter.

(5 Marks)
(Total 20 Marks)

QUESTION SEVEN

ISA 700: Forming an Opinion and Reporting on Financial Statements, states that the objective of an audit is to form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained and; express clearly that opinion through a written report that also describes the basis for that opinion.

Required:

- (a) Explain the concept of 'true and fair view' in relation to the auditor's opinion. **(4 Marks)**
- (b) Identify the qualities of a good audit report. **(4 Marks)**
- (c) (i) Explain the meaning of limitation of scope with respect to audit reports. **(4 Marks)**
(ii) Explain four circumstances that may give rise to limitation of scope. **(8 Marks)**

(Total 20 Marks)

End of question paper