iCPAR

INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA

Driving Sustainable Performance

Associate of IFAC

CERTIFIED PUBLIC ACCOUNTANT

LEVEL 2 EXAMINATIONS

L2.5: AUDITING

WEDNESDAY: 07 JUNE 2017

INSTRUCTIONS:

1. **Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has **seven(7)** questions and only **five(5)** questions are to be attempted.
3. Marks allocated to each question are shown at the end of the question.
4. All iCPAR Examination rules and regulations apply.

Attempt any five questions

QUESTION ONE

You are an auditor at PTV & Co., a firm of certified public accountant and Baz Insurance Ltd (BIL) has been an audit and tax client of PTV & Co.'s for the past three years. The new board of directors of BIL would like to gain more knowledge on the work done by the external auditors and has requested your audit manager to prepare a report explaining the following issues: assurance engagements, types of audit, other issues required to be reported on by the auditor during the audit of financial statements as stated in the Rwanda's Companies Act and safeguards to auditor's independence during the audit of BIL.

REQUIRED:

Prepare the report to the Board of BIL for your audit manager explaining:

(a) Types of assurance engagements. **(4 Marks)**

(b) Types of audit. **(2 Marks)**

(c) Other issues required to be reported on by the auditor during the audit of financial statements as stated in the Rwanda's Companies Act. **(6 Marks)**

(d) Safeguards to auditor's independence during the audit of BLL. **(8 Marks)**

(Total 20 Marks)

QUESTION TWO

You are an auditor with Shyaka & Co. The audit supervisor has selected you to be part of the team that will carry out the audit of Women's Microfinance Ltd (WMFL) for the year ended 31 March, 2017. The management of WMFL informed Shyaka & Co. during the pre-auditing meeting about the suspected fraud at the company and the possibility of risks of material misstatement due to fraud at the financial statement level.

REQUIRED:

(a) Differentiate between fraud and error. **(4 Marks)**

(b) Discuss the ways in which fraudulent financial reporting may occur. **(4 Marks)**

(c) Explain the overall responses Shyaka & Co. will adopt to address risks of material misstatements at WMFL. **(8 Marks)**

(d) State the matters to consider when designing further audit procedures in relation to risk at WMFL. **(4 Marks)**

(Total 20 Marks)

QUESTION THREE

KIVU Electric Ltd (KEL) is in charge of providing electricity in the Western province of Rwanda. Customers are billed on a monthly basis and can either pay their bills through the various banks or pay cash at the KEL branches located in the seven districts of the province. KEL has a networked accounting system for all its branches and the head office in Kigali-Gasabo.

KEL has experienced challenges with cash collection at the various branches as funds have been misappropriated on a number of occasions. Those charged with governance of KEL feel that the controls of the company need to be reviewed. You are the auditor at ASA & Associates and your audit firm is the external auditor of KEL for the period ended 31 March, 2017. Your audit supervisor has informed you that you will be part of the audit team.

REQUIRED:

(a) Discuss:

(i) The ways in which the audit team can obtain an understanding of how controls work at KEL. **(3 Marks)**

(ii) How effective these controls are in preventing misstatements and detecting of errors. **(3 Marks)**

(b) Advise KEL on the control activities they should adopt in regard to cash collections at their respective branch offices. **(14 Marks)**

(Total 20 Marks)

QUESTION FOUR

Quality Roofing Ltd (QRL) operates five business centres in the five provinces of Rwanda. The company has ten bank accounts in five different banks and petty cash floats managed on an imprest system in each of its five business centres. QRL uses Quick Books accounting software. Your firm, Rugatsira & Co., has been appointed to carry out the audit of QRL for the year ended 31 December, 2016. You are the auditor and the audit supervisor has put you in charge of cash and bank balances during this audit process.

REQUIRED:

Explain the audit procedures you will carry out in regard to:

(a) Bank balances. **(14 Marks)**

(b) Cash balances. **(6 Marks)**

(Total 20 Marks)

QUESTION FIVE

QZK & Co. has been appointed to audit RZB Bank Ltd. The bank was audited previously by KTL & Co. As auditors, QZK & Co. is required to obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements.

REQUIRED:

As an auditor in QZK & Co. explain the:

(a) Ways in which your firm, QZK & Co. shall obtain sufficient appropriate audit evidence as to whether the opening balances contain misstatements that may materially affect the current period financial statements. **(8 Marks)**

(b) Matters that determine the nature and extent of audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances. **(6 Marks)**

(c) Audit evidence needed by QZK & Co in regard to 'corresponding figures' for RZB Bank Ltd.

(6 Marks)

(Total 20 Marks)

QUESTION SIX

You work for an audit firm subcontracted by the Office of the Auditor General (OAG) of Rwanda. You are accountable for your performance and are duty bound to undertake your work professionally, objectively and in a cost effective manner and with due regard to the audit of any entity. You are part of the audit team to audit Rwanda Telecom Ltd (RTL); a state-owned company. You will also be required to review the general Computer Information Systems (CIS).

REQUIRED:

Explain:

(a) How you can attain the professional, objective and cost effectiveness of the audit of RTL. **(10 Marks)**

(b) The general computer information systems you would expect at RTL in relation to:

(i) Developing computer controls. **(5 Marks)**

(ii) Prevention and or detection of unauthorised changes to programmes. **(5 Marks)**

(Total 20 Marks)

QUESTION SEVEN

You work for DMT & Co. as an auditor and the audit supervisor has assigned you to review the **"other information"** included in the financial statements of Sun Telecom Ltd (STL) and also review the possibility of subsequent events.

REQUIRED:

(a) Using examples, discuss the 'other information' that may be included in the financial statements of STL. **(6 Marks)**

(b) Discuss with your audit supervisor the steps to be taken in case you discover inconsistencies in other information for which STL management is not willing to make the necessary adjustments. **(6 Marks)**

(c) Explain the following dates:

(i) Date of the financial statements. **(2 Marks)**

(ii) Date of approval of the financial statements. **(2 Marks)**

(iii) Date of the auditor's report. **(2 Marks)**

(iv) Date the financial statements are issued. **(2 Marks)**

(Total 20 Marks)

End of question paper