CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.2: AUDIT PRACTICE & ASSURANCE SERVICES

TUESDAY: 06 JUNE 2017

INSTRUCTIONS:

1. **Time Allowed: 3 hours 45 minutes** (15 minutes reading and 3 hours 30 minutes writing).
2. This examination has two sections; A & B.
3. Section A has one Compulsory Question while section B has three(3) questions to choose any two(2).
4. In summary attempt three(3)questions.
5. Marks allocated to each question are shown at the end of the question.
6. All iCPAR Examination rules and regulations apply.

SECTION (A)

This is a compulsory question

QUESTION ONE

MOJA INVESTMENT BANK (MIB)

JKM & Associates is a firm of Certified Public Accountants based in Kigali. It has three partners and over 50 staff where you are the senior audit manager. The firm has recently taken over the audit of Moja Investment Bank (MIB) which is licensed by the National bank. Mr. Evans Nyambo is MIB's major shareholder. The other shareholders are companies in which Mr. Evans is a director. Mr Evans is well respected in the business circles having risen from a small beer business owner to a multi millionaire.

MIB has been in existence for over twenty years and it has boosted the country's economy as one of the major financial institutions. It employs over 1,000 staff directly and is ranked among the top ten taxpayers in the country. From offering several bank account products, to money transfers, forex trading among others, MIB is at the forefront in the banking industry and it is on record that it was the pioneer user of the Visa card. However, over time the bank has had regulatory concerns with the central bank.

MIB is one of the many companies that form one of the main conglomerates, Nyambo Group of Companies (NGC). The bank has won several investment awards and commanded quite a good clientele. Nyambo Group of Companies (NGC) is made up of family investments.

In addition to banking, NGC has invested heavily in other sectors such as horticulture, insurance, education, hospitality and real estate among others.

Over the years, Mr. Evans Nyambo has done whatever it takes to justify himself as a key investor in the country. He currently owns several business ventures in Kigali and other provinces of Rwanda. He has been buying plots with or without old buildings from bank defaulters through MIB. He has been able to re-develop them into elegant high rise buildings which are part of his most desired investments. At one time during an interview with a major newspaper, Mr. Evans said that he earns up to 30% from his investment returns in real estate.

One of the other businesses Mr. Evans runs is an employment bureau that sends people to work abroad. There have been numerous customer concerns detailing how persons who went abroad to work complained on how they were forced to open up bank accounts in MIB as part of the conditions of the job offers. However, on returning, their hard earned remittances were not to the tune expected. These complaints have not been addressed due to the political clout Evans commands. Some customers have also closed their accounts due to the fact that counterfeit notes have been disbursed either across the counter or through the Automation Teller Machines (ATM). Mr Evans is also one of the biggest advertisers and therefore over a period of time many complaints have come and gone unattended to due to fear of the media houses losing business.

MIB has undergone rapid expansion with branches being opened on a quarterly basis throughout the country. There has been lack of clarity as to whether the bank owns the buildings where the branches are set up or they are owned by the group's real estate company. MIB prides itself as the only bank that does not rent but sets up permanent premises. In addition to the mentioned businesses, Mr. Nyambo also runs a money lending business targeting Kigali's big businessmen that require quick turnaround that banks cannot offer with limited security, an investment venture that is directly competing with his own bank. This might have affected the bank's profitability since it appears to be going down over the past three years. This is creating high risks to his business empire and in particular the bank.

The supervision department of the central bank has raised issues concerning financial mismanagement by the institution. The bank has many non-performing loans totaling Frw 200 billion that need to be written-off. These have affected the bank's performance. The latest reports indicate that the top 20 loans which were disbursed to politically-exposed persons representing 40% of the loans have not been serviced for over a year. The bank claims that there are government guarantees that if the persons failed to pay, government would take over the loans. This is the argument the bank management is using as reason for not writing off the loans. It is also being reported that the bank no longer fulfills some of its regulatory capital obligations with the central bank. These accusations are threatening the bank's going concern status as customers are withdrawing their deposits; and the bank is reported not to be in position to honour some of the withdrawals due to insufficient funds. This has put a big question on the going concern of the bank and the entire group. The latest central bank inspection report states that there is evidence of insider lending whereby some unsecured loans have been given to the main shareholder which he spends lavishly on parties. He owns very expensive vehicles and flies first class for all his business trips. The immigration department conducted a search on MIB and other NGC business and discovered that some foreign staff did not have work permits. There has been an outcry as to why the external auditors, internal auditors and the regulators have let the bank situation get to this level. It is believed that the key shareholder offered relatives of the central bank and immigration department staff positions in his bank and related companies which could have compromised them.

REQUIRED:

(a) As a senior audit manager, make a critical risk assessment of MIB's position to:

(i) The Nyambo Group of Companies (NGC). **(10 Marks)**

(ii) Rwanda as a country since NGC is the country's biggest investment group and MIB in particular. **(10 Marks)**

(b) Based on the scenario, explain the limitations the bank inspectors and external auditors may have faced during the audits of the bank. **(10 Marks)**

(c) As a senior audit manager, draft the key audit matters section of the auditor's report to MIB's shareholders highlighting the critical matters in the scenario. **(10 Marks)**

(d) Discuss the ethical issues relevant to Moja Investment Bank and recommend any actions that could have been taken by the audit firm as well as the central bank. **(10 Marks)**

(Total 50 Marks)

SECTION (B)

Attempt two questions from this section

QUESTION TWO

Fancy Furniture Limited (FFL) located in the Southern Province of Rwanda in Nyaruguru District, manufactures both office and house hold furniture. In its operations, it rarely uses 'Just-In-Time' inventory management system due to the fact that the majority of its clientele are the 'walk-in and buy' clients. In an attempt to expand its market coverage, FFL spends a lot of resources on massive advertisement in the print and electronic media throughout the country. This has led to its rapid growth and has seen its revenues souring in a short period of time.

Due to the fact that many clients come in to buy, the company has to maintain large stock in order to ensure that the client's demands are satisfied. The company manages two warehouses where it keeps most of the stock. In order to expand its business, FFL has opened up a branch in Kicukiro District, in Kigali province since this is where Multinationals and expatriates stay. The branch in Kicukiro has one big warehouse which is always filled with inventory from the head office in Nyaruguru.

You are the Chief Internal Auditor of FFL and among the tasks you are required to perform is to conduct a risk assessment as part of their strategy to improve company performance.

REQUIRED:

(a) Carry out a risk assessment of FFL. **(10 Marks)**

(b) Justify the verification of advertising expenses. **(5 Marks)**

(c) Analytical procedures for inventories of FFL. **(10 Marks)**

(Total 25 Marks)

QUESTION THREE

Musanze Transport Services Limited (MTSL) is possibly the biggest transport service provider in the Northern Province of Rwanda. However, with time they have developed weaknesses in their service delivery. Some equipments have broken down and the profitability has dropped. The transporters are no longer the preferred company to the customers. As the audit manager of Ndyanabo & Co., the Chief Executive Officer of MTSL has approached you for business advisory services. He is wondering where they are getting it wrong. So the task at hand is to review the business performance of the company and advise on how to help the company make a turn around.

REQUIRED:

(a) Discuss the areas of concern during your review engagement. **(10 Marks)**

(b) Examine the considerations during the disclosure of prospective financial information. **(10 Marks)**

(c) Organisations need to assess their social impacts on and ethical behaviour to the stakeholders and the wider community. Discuss the social expectations of organisations as regards to social impact and ethical behaviour. **(5 Marks)**

(Total 25 Marks)

QUESTION FOUR

Ruzindana Estates Limited (REL) deals in real estate management. It builds and sells buildings, buys and sells land and also manages other people's properties. The company has grown into a big real estate's company and has invested widely. It has a big chunk of investments mainly in Byumba the Provincial capital of the Northern Province. It's probably the biggest real estate company in the Northern Province. In addition, some property owners have outsourced the management of their properties to REL to ensure proper management. It employs a big number of people both directly and indirectly. It has also taken its business to the internet since there are several customers in the Diaspora who have expressed interest in buying land, houses among others or having their property managed.

As an audit manager in Katurebe & Co. Certified Public Accountants, you have been given the task to audit REL. You realize that you have to come up with the key areas for discussion since you feel that REL has a number of risky areas that need to be given attention during the course of the audit. Among them is the implication of the requirements of the diverse international financial reporting standards in respect of the company`s nature of its work.

REQUIRED:

(a) The company holds several properties and it is subject to several accounting standards:

  (i) Discuss the different standards applicable depending on the types of property. **(6 Marks)**

  (ii) Evaluate the substantive tests that should be undertaken during the audit of investment property. **(8 Marks)**

(b) The company has employed internet and computer usage due to the fact that it deals with its customers in the Diaspora to transact business. Describe the control classifications that need to be adhered to during the usage of computers. **(3 Marks)**

(c) Justify the audit considerations necessary in the event that the properties are outsourced to REL for management. **(8 Marks)**

(Total 25 Marks)

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