

CERTIFIED PUBLIC ACCOUNTANT INTERMEDIATE LEVEL EXAMINATIONS

11.4: AUDITING

FRIDAY: 09 JUNE 2017

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 (3) Compulsory Questions while Section (B) has four (4) questions to choose any two (2).**
- 4. In summary attempt Five (5) questions.**
- 5. All iCPAR Examination rules and regulations apply.**

SECTION (A)

Attempt all questions in this section

QUESTION ONE

Masape Limited deals in the supply of stationery in the major towns of Rwanda. In a management meeting held on the 3rd March, 2017, discussions were focused on the challenges in the purchase system. A resolution was passed to establish an internal audit department to which you were appointed as Chief Audit manager. The procurement officer has provided you with the following information about the company's purchase system:

1. Procurement Officers raise duplicate purchase requisitions and forward them to the procurement department upon receipt of an order.
2. The procurement department raises a triplicate unnumbered purchase order which is authorised by the buyer. The first copy is sent to the supplier, second copy to stores and the third copy is filed by the procurement department.
3. Upon receipt of goods by the stores assistant, they are kept in the store under key and lock.
4. The stores assistant sends the invoice received to the accounts department for payment processing.
5. The invoices are kept in the pending payments file until the month end, in the order in which they are received.
6. At the month end the accounts assistant prepares a payment requisition for each supplier.
7. A payment listing including suppliers' bank details is prepared by the accounts assistant, checked by the procurement officer and given to the finance officer for signature and delivered to Masape Limited's bank.

Your enquiries about the system indicate that there are no other relevant procedures other than those described above.

REQUIRED:

- (a) Explain the control activities that should be put in place in the purchases system of Masape Limited.

(10 Marks)

- (b) Describe the tests that the internal audit department would carry out to verify the purchase system of Masape Limited.

(10 Marks)

(Total 20 Marks)

QUESTION TWO

Kirehe Trading Company Limited (KTCL) is located in the eastern province of Rwanda and deals in precious minerals like diamonds and gold. Your audit firm, Katana & Associates was appointed five years ago to audit their books. Katana & Associates accepted the appointment before doing a thorough background check of the business. Information from various sources indicates that the sourcing of the precious minerals is from an unregulated market. Therefore the cost of the precious minerals may not be reliably estimated. The prices of the minerals are only known by the owners who task the accountant to estimate the cost to be included in the accounting records.

The year ending 30 June, 2016 is your first year as manager for this audit assignment; the following matters have been brought to your attention by management. The team that carried out the audit for the past four years had never been rotated. The closing inventory was valued at selling price other than cost price.

Your firm does not have the necessary experience or expertise to value inventory of precious minerals. Therefore, there may also be a threat of failing to deliver on time because of the need to find an expert to value the inventory.

Katana & Associates had already billed KTCL and in the terms of the engagement, the involvement of a specialist and their fees had not been included.

REQUIRED:

- Explain the matters that Katana & Associates should have considered to assess the integrity of KTCL before taking on the assignment. (10 Marks)
- Explain how the possible threats to the engagement of KTCL might have been safeguarded. (6 Marks)
- Explain the controls that are expected within the client's systems and procedures. (4 Marks)

(Total 20 Marks)

QUESTION THREE

You are the auditor of Kalanzi Concrete Works, a manufacturer of concrete products located in Kicukiro District. The company sells a range of building materials from culverts, bricks and pavers from a number of locations in Rwanda. The company has had a number of problems in the year 2016 ranging from drop in customer base to increase in the cost of raw materials because of scarcity. Below is an extract of the Statement of profit or loss and other comprehensive Income.

	30 June, 2016	30 June, 2015
	Frw (000)	Frw (000)
Sales	250,000	245,000
Cost of sales	120,000	122,500
Gross profit	130,000	122,500
Operating Expenses:		
Administrative expenses	50,000	63,700
Selling and Distribution costs	15,000	24,500
Profit (loss) before tax	65,000	34,300

Additional Information:

- During the year ended 2016 the closing inventory was Frw180, 000 and opening inventory was at Frw100, 000
- During the year ended 2015 the closing inventory was Frw100, 000 and opening inventory was at Frw 150, 000

REQUIRED:

- Using analytical procedures assess the areas that may require additional audit work (10 Marks)
- As auditor of Kalanzi Concrete Works discuss what should be considered before using analytical procedures? (10 Marks)

(Total 20 Marks)

SECTION (B)

Attempt any two questions in this section

QUESTION FOUR

Rumalika & Associates, a firm of certified public accountants situated in Muhanga District was established in 2012 and has been carrying out business for the last five years. It is a two partner firm which employ's professional staff who include senior audit manager, audit manager, audit senior and audit assistants in charge of the day- to-day management of the firm. At the commencement of any audit engagement the senior audit manager informs members of their responsibility such as maintaining an objective state of mind, performing the work with due care, the nature of the entity's business to be audited, risk related issues for the firm, problems that may arise and the detailed approach to performance of the audit engagement. During the execution of audit engagements the audit senior reviews work of the audit assistants and the audit manager reviews work of the audit senior and the senior audit manager reviews the work performed by the audit manager.

REQUIRED:

- (a) You have been recruited as the audit manager in Rumalika & Associates, describe what you would put into consideration when reviewing a current audit file presented to you by the audit senior. (12 Marks)
- (b) Explain the importance of carrying out risk assessment before an audit engagement. (8 Marks)

(Total 20 Marks)

QUESTION FIVE

Bucecele High School is a private secondary school located in Kibeho town. It is owned by three directors Jean Kaberuka, Austin Ruzindana and Paul Habyalimana. Jean Kaberuka is the majority share holder with 90% shares and Austin Luzindana and Paul Habyalimana owning 5% shares each. The school has applied for a top up loan facility from Rwanda Commercial Bank. It is required to produce audited financial statements for the year ended 31 December, 2016.

Your Firm JES & Associates has been appointed to carry out the audit of Bececele High School and the following was discussed in the pre audit meeting with school management:

- Some of the statement of financial position figures include; land valued at Frw 550 million, school bus Frw 50 million, school truck Frw 30 million, service van Frw 22 million.
- As at 31 December, 2016 management reports indicated that the school had made a profit of Frw 15 million.
- In 2006 when the school was being established Jean Kaberuka provided the land on which the school was constructed and the land title is in his names. However, the title details are included on the Bucecele High School's assets register and it is also part of the assets valued on the statement of financial position.
- The school owns a school bus, a truck and a service van which have been listed in the school's assets register but the log books are in the names of Jean Kaberuka.
- The current outstanding loan balance with Rwanda Commercial Bank is Frw 47 millions which was taken over five years ago.

- The school has been purchasing assets since 2006 and maintains an assets register which only constitutes the asset purchased, the date of purchase and the amount.
- The major source of income for the school is school fees and income from school gardens which are used as a venue for parties and weddings.
- The school employs a bursar who is in charge of receipts and payments. Students pay their school fees into the school's bank account and bring bank slips at school where they are issued with receipts.
- Payments are made by cheque to all suppliers irrespective of the amount but this has to be authorised by Jean Kaberuka.
- A part- time accountant is responsible for updating the various books of account and also prepares management reports for decision making at the end of the term.

REQUIRED:

Based on the scenario above:

- (a) Describe the audit assertions the auditor would use to confirm Statement of financial position and statement of profit or loss and other comprehensive incomes. **(14 Marks)**
- (b) Draft key recommendations based on the above scenario to the management of Bucecele High School.

(6 Marks)

(Total 20 Marks)

QUESTION SIX

In conducting an audit of financial statements, the overall objective of the auditor is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared in all material respects, and are in accordance with applicable financial reporting framework. The auditor plans an audit to be able to assess the control systems of the entity, test them and carry out substantive tests on a number of transactions with a view of assessing whether there is sufficient and appropriate audit evidence to enable him form an opinion. This process may have a number of challenges either internally or externally.

REQUIRED:

- (a) Discuss the process in which an audit should be carried out. **(12 Marks)**
- (b) Explain the limitations of an audit. **(8 Marks)**

Total 20 Marks

QUESTION SEVEN

- (a) Explain the differences between an internal auditors and external auditor. **(8 Marks)**
- (b) Auditors can use Computer- Assisted Audit Techniques (CAATs) to interrogate the system and carry out comparative and analytical tests. By using CAATs the scope and objectives of an audit do not change even in a situation where a client is heavily computerised. However, the application of auditing procedures does require the auditor to consider procedures that use the computer as an audit tool.

REQUIRED:

Identify the benefits and the setbacks that may accrue to the audit firm when it applies Computer Assisted Audit Techniques in obtaining sufficient audit evidence. (12 Marks)

(Total 20 Marks)

End of question paper



