
CERTIFIED ACCOUNTING TECHNICIAN (CAT)

LEVEL 2 EXAMINATIONS

L2.5.AUDITING

WEDNESDAY: 6 JUNE 2018

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.
4. Show all your workings.

QUESTION ONE

You audit firm, BKA & Co has been appointed the auditors of Roofing Clays Limited (RCL) for the year ended 31 December 2017. Your audit supervisor has notified you that you will be part of the audit team. You are expected to gather sufficient appropriate evidence for all the work you will be assigned during the audit.

The directors of RCL has also requested BKA & Co. to advise the company on the procedures to take in setting up an audit committee and whether it is even necessary to have one in place.

REQUIRED:

- (a) Explain to your supervisor the various techniques you will use to collect audit evidence during the audit of RCL.
(8 Marks)
 - (b) Discuss with your supervisor the factors to consider in assessing the sufficiency of audit evidence.
(8 Marks)
 - (c) Explain to the directors of RCL the advantages of having an audit committee at RCL.
(6 Marks)
- (Total 20 Marks)**

QUESTION TWO

Mulifi Furniture Limited (MFL) sells Furniture & Fittings. MFL has its warehouse and outlets in Kigali. MFL was previously audited by Jean & Co., CPA. Your Firm, Rugabwa & Co., CPA has been appointed the auditor of MFL for the year ended 31 December 2017. This follows the dismissal of Jean & Co., CPA.

It was discovered that staff in the finance department together with the auditors were involved in fraudulent financial reporting. MFL dismissed all staff involved and is considering taking legal action against Jean & Co., CPA for negligence. MFL directors were disappointed with Jean & Co., and were not even allowed to attend MFL annual general meeting. Jean & Co claim that they did not have access to all information hence the reason they could not discover the fraudulent practices.

REQUIRED:

- (a) Explain to the directors of MFL the circumstances under which Jean & Co., CPA will can be held liable for negligence.
(8 Marks)
 - (b) Explain to the directors of MFL the various examples of fraudulent financial reporting that may occur in a company.
(6 Marks)
 - (c) Advise MFL on the rights of auditors.
(6 Marks)
- (Total 20 Marks)**

QUESTION THREE

NKC& Co. has been appointed to audit the financial statements of Highfliers Company Ltd (HCL). HCL deals in Motorcycles and has been in business for the past two years. HCL is a family business, run by a father and his two sons. The Father's share capital is 80% whereas the sons share equally the remaining 20%.

HCL has investments in form of one year treasury bills worth Frw 50 million with the National Bank of Rwanda, ordinary shares worth Frw 40 million in River Oil Ltd a listed company and thirty acres of land in the eastern province of Rwanda.

NKC & Co. has standardized audit programs which are designed to ease the work of Audit assistants in gathering evidence to be relied upon in forming conclusions.

REQUIRED:

- (a) Explain the business risks facing HCL. **(10 Marks)**
 - (b) Identify the advantages and disadvantages of using standardized audit programs by NKC & Co. **(10 Marks)**
- (Total 20 Marks)**

QUESTION FOUR

Mass Stationery Ltd (MSL) offers printing services and stationery to a range of customers, both retail and wholesale. The Operations Manager is in charge of the following: running the company, sourcing for suppliers, placing orders for the purchase of stationery and setting of the re-order levels.

The Suppliers of stationery do not provide MSL with an invoice but the manager writes in his dairy, the quantities purchased and the agreed price which is used in updating accounts records. On some occasions if he is very busy he just notifies the accounts assistant verbally what has been purchased for the day and it's recorded in a purchases register.

MSL recently purchased large quantities of stationery yet it has limited storage space and the Operations Manager has hired space at the garage belonging to his sister. Your firm, AVC & Co has been appointed to audit the financial statements of MSL for the year ended 31 December, 2017.

REQUIRED:

- (a) Explain the objectives of auditing purchases of MSL. **(4 Marks)**
 - (b) Recommend control procedures that should be put in place over purchases at MSL. **(10 Marks)**
 - (c) Explain the internal controls that should be put in place over purchases at MSL. **(6 Marks)**
- (Total 20 Marks)**

QUESTION FIVE

In recent times, there has been an increase in money laundering practices in the East African region. Western countries have already warned that the region needs strict anti –money laundering laws to curb the crime and strangle terrorism networks operating in the region. Government and financial institutions should equip employees with technological skills to monitor and minimise the magnitude of the vice.

Security experts have warned that Rwanda is not immune from acts of terrorism like those other East African countries are grappling with. Rwanda’s financial system like those other countries in the region has been infiltrated by money laundering. Authorities admit that it has been hard to eradicate the vice as criminals use legal instruments to cover their tracks.

REQUIRED:

- (a) Explain the procedures and internal controls audit firms should put in place to enable them identify suspicious transactions involving money laundering. **(6 Marks)**
- (b) Explain the various stages/process of money laundering. **(6 Marks)**
- (c) Discuss the ways in which auditors can protect themselves from criminal and civil liability arising from money laundering. **(8 Marks)**

(Total 20 Marks)

QUESTION SIX

Green Newspaper Limited (GNL) is a client of your firm MK & Associates CPA for the year ended 31 December 2017. GNL uses computerized accounting software. Using the audit interrogation software, your audit manager reviewed and analysed the draft financial statements and General ledger of GNL.

The review didn’t indicate any contingent liability relating to legal matters yet there is evidence in the Rwandan courts of cases against the company. A review on the website of the Judiciary indicates three cases against GNL for defamation.

REQUIRED:

- (a) Explain to your audit manager the software controls you expect to find at GNL. **(6 Marks)**
 - (b) Discuss with your audit manager the audit procedures that may lead to verification of the existence of liabilities arising out of legal action/proceedings. **(8 Marks)**
 - (b) Explain the benefits of using an audit interrogated software in the audit of GNL. **(6 Marks)**
- (Total 20 Marks)**

QUESTION SEVEN

Nyanza Supermarket Limited (NSL) operates a chain of supermarkets in Rwanda. RSL is an audit client of your firm, Rusiizi & Co, CPA for the year ended 31 December 2017. The financial statements of NSL are prepared in accordance with International Financial Reporting Standards. NSL was previously audited by Kamanzi & Co, CPA who issued an unqualified audit opinion.

The audit manager has informed you that you will be part of the audit team auditing NSL. NSL has large volumes of transactions and therefore it will not be possible to check every transaction. The audit manager has requested that you prepare a sample of transactions for audit testing from the respective income and expenditure ledgers.

REQUIRED:

- (a) Explain to the audit manager the points to consider before preparing a sample of transactions for audit testing. **(8 Marks)**
- (b) Explain to your audit manager the factors Rusiizi & Co should consider before issuing an unqualified audit opinion to NSL. **(12 Marks)**

(Total 20 Marks)

END OF QUESTION PAPER

BLANK PAGE

BLANK PAGE

BLANK PAGE