
CERTIFIED ACCOUNTING TECHNICIAN
LEVEL 2 EXAMINATIONS
L2.5: AUDITING
WEDNESDAY: 5 JUNE 2019

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 are an audit assistant at Structure & Co Ltd. Your firm was recently appointed by Gasabo Investments Ltd (GIL) to carry out an independent examination of their financial statements for year ended 31 December, 2018. GIL deals in supply and distribution of scholastic materials like stationeries, chalks, textbooks, exercise books, printing papers and the like.

At the planning meeting with the audit manager, he instructed you to develop a brief note to be presented to Audit Interns regarding International Standard on Auditing (ISA) 200: Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, so that they clearly understand their objectives in carrying out the engagement at GIL and also include a background of how the International Auditing and Assurance Standards Board (IAASB) sets auditing standards. He has made it clear to you that an understanding of ISAs is crucial to auditors and failure to comply would lead to regulatory action against the firm either by the Institute of Certified Public Accountants of Rwanda (ICPAR) or third parties.

REQUIRED:

- (a) Prepare a brief note, explaining to the audit interns, the:
 - (i) Process of setting up auditing standards as stipulated by IAASB. **(4 Marks)**
 - (ii) Requirements of ISA 200 to conduct the engagement at GIL in accordance with ISAs. **(6 Marks)**
- (b) Discuss the matters Structure & Co ltd will have to consider when planning the audit of the financial statements of GIL for the year ended 31 December 2018. **(10 Marks)**
(Total 20 Marks)

QUESTION TWO

Jantal Media Ltd (JML) is an advertising agency based in Kigali, Rwanda offering TV & Radio adverts and print media. Your audit firm, Kibeho & Co ltd is responsible for the audit of JML for the year ended 31 March, 2019. Kibeho & Co ltd's partners include CPA Richard Kibeho and CPA Renna Kiberinka.

CPA Kibeho's first son (Alba Kibeho) is the main shareholder in JML with an 80% interest. JML contributes 60% of Kibeho & Co's revenue. In all previous audits at JML, CPA Kibeho has been on the engagement team to ensure that his son is not implicated for any wrong doing.

A review of source documents at JML revealed a major fraud involving an under declaration of revenue with intention to avoid tax. Disagreements have erupted among the engagement team during the audit exercise. CPA Kibeho has promised to replace all auditors due to insubordination.

REQUIRED:

- (a) With reference to the above scenario, identify and explain the ethical threats that Kibeho & Co ltd is likely to encounter during the audit of the financial statements of JML. **(5 Marks)**
- (b) Discuss the safeguards Kibeho & Co ltd needs to institute to avoid the reoccurrence of such ethical threats during audit engagements. **(5 Marks)**
- (c) Describe the:
 - (i) Different types of fraud expected in entities like JML. **(4 Marks)**
 - (ii) Responsibilities of Kibeho & Co ltd if fraud is detected at JML. **(6 Marks)****(Total 20 Marks)**

QUESTION THREE

Mogots & Co ltd is preparing for the audit of Interior Concepts Ltd (IKL). IKL deals in interior designing and compound cleaning services. A review of IKL's sales revealed that some duplicate copies of sales invoices and receipts were missing. All workers at IKL have access to invoice and receipt books to be used in field visits when serving customers (whether on cash or credit) to earn a commission. It is upon the worker to collect the outstanding monies from the client since no commission is paid before the customer pays the amount due. The company also has no clear policy to manage debtors; for instance debtors are not notified of the latest date they ought to settle their accounts with the company. Additionally, the field workers are not supervised. However, they have to report daily to sign for tools and equipment to use at clients' premises.

Clients are required to bank the money directly to IKL's account but those who fail can give the money to the workers who deliver it to the cashier. The cashier waits for the bank statement at the end of the month to verify the transactions.

You work for Mogots & Co. as an auditor and your managing partner has instructed you to select an appropriate audit team so that the engagement is performed efficiently. You are required to plan the nature, timing and extent of direction and supervision of the engagement team members and the review of their work.

REQUIRED:

- (a) Discuss the factors you will consider in selection of an appropriate audit team to help you achieve your audit objectives at IKL. **(6 Marks)**
 - (b) Explain the role of your managing partner in carrying out this engagement at IKL. **(4 Marks)**
 - (c) Discuss the deficiencies in internal control regarding IKL's sales system. **(10 Marks)**
- (Total 20 Marks)**

QUESTION FOUR

Pakasan Construction Ltd (PCL) is a construction company providing services in the civil and building sectors in Rwanda. PCL employs over 200 employees on both full-time (permanent workers) and part-time (casual workers) basis. Your firm, Raf & Co Ltd, has been appointed by PCL to audit their financial statements for the year ended 31 December, 2018.

During the audit, you examined the staff files and discovered that all workers do not have appointment contracts. However, permanent workers were being paid a monthly salary (net of applicable statutory/tax obligations) and entitled to annual leave, pension benefits, medical allowances, maternity leave and sick leave. For the casual workers, you discovered that they are paid wages in form of cash for the work done per week. No taxes are withheld from their weekly payments but are required to sign in a book as acknowledgment of receipt of wages. Wages of absentee casuals can be received by proxy.

After the examination of staff files, you are convinced that the wage system has material inconsistencies that need rectification by the management of PCL.

REQUIRED:

- (a) Explain to the management of PCL the objectives of the audit of the wages at their company. **(6 Marks)**
 - (b) Write a memo to the managing partner, discussing the:
 - (i) Risks of material misstatement due to fraud expected in PCL's wage system. **(6 marks)**
 - (ii) Audit procedures you will carry out regarding wages paid to casual workers on a cash basis. **(8 Marks)**
- (Total 20 Marks)**

QUESTION FIVE

Nyagatare Poultry Breeders Ltd (NPBL) has been in international poultry business for more than 10 years. Late 2016, NPBL started a poultry housing equipment including feeders and drinkers to offer the complete range of products needed for efficient poultry farming. NPBL introduced modern technology and information systems to market poultry equipment and other products produced through the Internet.

The company also maintains an information system relevant for its financial reporting which consists of the procedures and records established to initiate, record, process and report transactions, maintain accountability for the related assets, liabilities and equity.

Ngarambe & Co. has been appointed to carry out a comprehensive information technology (IT) audit of NPBL by examining and evaluating the company's IT infrastructure, policies and operations. You work for Ngarambe & Co. as an audit trainee.

REQUIRED:

- (a) Explain:
- (i) The primary objectives of an IT audit to the engagement team of Ngarambe & Co. **(4 Marks)**
 - (ii) The elements of NPBL's information system relevant to financial reporting that Ngarambe & Co. needs to review when carrying out the IT audit. **(8 Marks)**
- (b) Discuss the general and application controls you expect to find at NPBL regarding their technology and information systems. **(8 Marks)**
- (Total 20 Marks)**

QUESTION SIX

Eden & Co Ltd are the auditors of Bugesera Agro Farmers Ltd (BAFL). BAFL produces milk, beef, yoghurt and other milk products which they sell to wholesalers and retailers. Over the years, BAFL has been receiving raw material supplies on credit from farmers around the country and this has boosted its growth. However, the management of BAFL is concerned about complaints from suppliers about the delayed payments due to the bureaucracy involved in invoice processing. Suppliers' invoices are delayed because of failure to trace whether the raw materials were received or if the prices being charged were what the company originally agreed to.

In addition, wholesale customers who make prepayments for their orders have been so disappointed for untimely fulfillment of their orders. This is because of the manual check system involved.

You are on the audit engagement team responsible for the audit of BAFL. The Managing Practitioner has instructed you to examine the trade payables ledger and prepayments made by the wholesale customers to mitigate the risks of material misstatements.

REQUIRED:

- (a) Explain to the Audit Engagement Team members, the control objectives you expect to find in BAFL's raw material purchases. **(6 Marks)**
- (b) Discuss the audit procedures you would carry out in BAFL's financial statements regarding:
- (i) The trade payables. **(8 marks)**
 - (ii) Prepayments made by customers. **(6 Marks)**
- (Total 20 Marks)**

QUESTION SEVEN

Nsabimana Clays Ltd (MCL) deals in clay products such as roofing tiles, bricks, pavers, maxpans, ventilators, suspended floor units to mention but a few. The company has appointed your firm, Kaggie & Co ltd as auditors for the year ended 31 December, 2018. You are part of the audit team and the engagement partner has instructed you to contact the company lawyers regarding a provision for the court case recorded in the financial statements.

In his reply, the company lawyer sent this email below:

“Reference is made to the above subject matter. The facts of the matter are that MCL was sued by the local community for environmental damages as a result of the company activities. The locals want court to award them damages of Frw 100 million as compensation. On 3 February, 2019 the case was decided by court in favor of the local community and am liaising with MCL’s management to pay the damages.”

In the review meeting, the Managing Partner has decided that this is a subsequent event that needs to be disclosed under key audit matters to comply with International Standard on Auditing (IAS) 700 (Revised): Forming an Opinion and Reporting on Financial Statements.

REQUIRED:

- (a) With reference to ISA 560: Subsequent Events, explain to the audit team:
 - (i) The term ‘subsequent events’. **(2 Marks)**
 - (ii) Examples of different types of subsequent events. **(6 Marks)**
 - (iii) The audit procedures you would carry out in MCL’s financial records to uncover more subsequent events. **(8 Marks)**
 - (b) Discuss Kaggie & Co ltd’s responsibilities regarding the Key audit matters in the financial statements of MCL to comply with ISA 700 (Revised). **(4 Marks)**
- (Total 20 Marks)**

