
**CERTIFIED PUBLIC ACCOUNTANT
INTERMEDIATE LEVEL EXAMINATION**

I1.4: AUDITING

FRIDAY: 7 JUNE 2019

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** Compulsory Questions while Section B has **four** questions to choose **two**
4. **Five** questions in total are to be attempted.
5. All ICPAR Examination rules and regulations apply

QUESTION ONE

You are an audit supervisor at Kengo, Gahima & Co. (KGC). KGC has been appointed by Nahayo Insurance Company (NIC) to offer audit and other assurance services. The firm (KGC) has over 25 permanent staff.

NIC is an insurance company incorporated in Rwanda and in the business of offering insurance services to the general public. NIC operates in all the 5 provinces of Rwanda and its insurance cover is available to over 5,000 clients.

NIC has 4 shareholders with equal shareholding and a Board of Directors comprising 7 directors. The annual turnover was Frw 1.5 billion and Frw 2 billion in 2018 and 2017 respectively, representing a decline of 25% in turnover. The shareholders are concerned about the performance of NIC and have directed the directors and management to restructure the company to make it more profitable and sustainable.

The following issues were discussed and resolutions passed in a meeting of the shareholders, directors and key management.

1. It was agreed that NIC discontinues its internal audit department and outsource the services to KGC. The department has not been able to perform as expected.
2. The Board of Directors did not also perform well in regard to its oversight function. Some of the board members are not aware of the principles that guide corporate governance. It was agreed and resolved that KGC offers training to the board members on the corporate governance principles.
3. The audit services for PK & Co. were terminated due to failure to carry out their audit with reasonable skill and care. Management informed the Board that many stakeholders may be interested in NIC's audited financial statements and therefore these need to be audited in accordance with International Standards on Auditing.

REQUIRED:

- (a) Explain to the board of NIC the:
 - (i) Possible benefits of outsourcing NIC's internal audit department to Kengo, Gahima & Co. **(8 Marks)**
 - (ii) Fundamental principles of good corporate governance. **(6 Marks)**
 - (b) Identify and explain to the Board, the stakeholders that may be interested in the audited financial statements of NIC. **(6 Marks)**
- (Total 20 Marks)**

QUESTION TWO

You are the audit senior at Chico & Co. in charge of audit of Real Properties Limited (RPL) for the year ended 31 December, 2018. RPL's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

RPL's principal activity is the development of commercial and residential properties for rent and sale to the general public. RPL's annual turnover was Frw 10 billion with a profit of over Frw 3 billion.

The Audit Manager has instructed you to ensure that the following is done:

1. Preparation of an Audit Planning Memorandum, i.e., a document recording the audit planning process. This is key to the audit assignment as it will give the overall strategy and direction of the audit of PRL.
2. All working papers required on the current audit file are on file after the audit assignment before it is handed over to the audit manager for review. The working papers should also be properly referenced.
3. The audit team should identify matters of 'most significance' in the audit of RPL's financial statements as these will help in determining key audit matters to be included in the auditor's report.

REQUIRED:

Explain to the audit manager the:

- (a) contents of an audit planning memorandum for RPL. **(6 Marks)**
 - (b) audit working papers expected on RPL's current audit file. **(6 Marks)**
 - (c) factors Chico & Co. may consider in determining matters of 'most significance' in relation to key audit matters. **(8 Marks)**
- (Total 20 Marks)**

QUESTION THREE

You work as an auditor at the Office of the Auditor General (OAG) and you are part of the audit team assigned by the Principal Auditor to audit Rwanda Investment Authority (RIA), for the year ended 31 December, 2018. RIA is a government entity mandated by the Act of Parliament to market the country as one of the preferred foreign direct investment destination in the world.

The Principal Auditor has instructed the audit team to ensure that they obtain an understanding of the activities of RIA and the expected internal controls expected in all the 5 departments of RIA especially the finance department as this is key in making an appropriate audit opinion. The key areas include an understanding of the design of the internal control and how these are capable of preventing, detecting and correcting material misstatements; and the implementation of the controls, that is, whether the controls operate as intended.

REQUIRED:

Explain to the audit team the:

- (a) Risk assessment procedures to be adopted to enable the team obtain audit evidence on the design and implementation of relevant controls. **(6 Marks)**

- (b) Specific internal control procedures expected at RIA. **(6 Marks)**
- (c) Areas that need to be fully understood by the team in relation to RIA's information system and related operational processes. **(8 Marks)**
- (Total 20 Marks)**

QUESTION FOUR

You are an audit supervisor at Yuni, Toto & Co. and part of the team to audit Metro Supermarkets Limited (MSL) for the year ended 31 March, 2019. MSL is incorporated in Rwanda and operates a supermarket in Kigali with annual turnover of over Frw 20 billion.

MSL offers warranty for some of its items in the store that have a useful life of over 1 year, such as, electronics, furniture and fittings and other products. MSL's financial statements show a provision for warranty of Frw 1 billion and this figure is material in the financial statements.

MSL operates a continuous inventory system as this is the most suitable given the nature of business. Stock outs in this business are likely to be misinterpreted by the public to mean going concern challenges and therefore stock management is key.

Management of MSL also asserts that it has made all the necessary presentation and disclosure requirements in the financial statements and the audit team is expected to have a smooth audit process.

REQUIRED:

- (a) Explain to your team the assertions made by management in relation to presentation and disclosure. **(6 Mark)**
- (b) Design audit procedures you will carry out in relation to the audit of:
- (i) Provision for warranties. **(8 Marks)**
 - (ii) Inventory valuation method adopted by MSL. **(6 Marks)**
- (Total 20 Marks)**

QUESTION FIVE

You are an audit senior at TKS & CO. and part of the audit of MTL Saving and Cooperative Society Limited (MTL) for the year ended 31 December 2018. MTL is registered in Rwanda and is in the business of offering savings/ deposits opportunities and loans to its members at affordable interest rates.

MTL has more than 1,000 members and each member has an account in the accounting system. You intend to use new acquired audit software to audit MTL.

The audit team is expected to adopt a sampling technique as it is impossible to check each and every transaction. You will therefore be required to take a sample for each account balance considered material. The team will also need to adopt analytical procedures at the planning stage, during the audit and at the end to be able to identify significant fluctuations or relationships that may pose a risk of material misstatements.

REQUIRED:

- (a) Describe your performance expectation of the new audit software. **(4 Marks)**
 - (b) Discuss with the audit team:
 - (i) The steps to take while applying the monetary unit sampling method. **(8 Marks)**
 - (ii) Factors to consider when placing reliance on the results of analytical procedures. **(8 Marks)**
- (Total 20 Marks)**

QUESTION SIX

RND is a registered Non-Governmental Organization (NGO) in Rwanda doing humanitarian and development work in all provinces. RND has over 10 funders/ donors with annual donations of over Frw 4 billion. RND's financial statements are prepared in accordance with donor reporting guidelines and Generally Accepted Accounting Principles.

You are part of the audit team of Kanza, Ngeze & Co. (the firm) that completed the field audit of RND for the year ended 31 December, 2018. The audit file was reviewed by the audit manager and the engagement partner and both reached a conclusion that the suitable audit opinion for RND's financial statements is a 'modified audit opinion'.

The draft financial statements were sent to RND for their review and comments. RND has communicated to the firm that a modified audit opinion will not be accepted as RND is donor funded and such an opinion will have an adverse effect on the donations. They (RND) have therefore scheduled a meeting with the audit team to discuss the audit opinion.

REQUIRED:

Explain to the management of RND the:

- (a) process the firm follows to form an audit opinion. **(10 Marks)**
 - (b) various types of modified audit opinion. **(6 Marks)**
 - (c) effects of a modified audit opinion. **(4 Marks)**
- (Total 20 Marks)**

QUESTION SEVEN

The Office of the Auditor General of State Finances (OAG) is the Supreme Audit Institution (SAI) of Rwanda. Article 166 of the Constitution (amended) stipulates that the Auditor General (AG) shall each year submit to each chamber of Parliament a complete report on the consolidated state accounts for the previous year indicating the manner in which the budget was utilized. To exercise their mandate, the AG submits reports of state finances to Parliament for each year.

The Institute of Certified Public Accountants of Rwanda (iCPAR) has applauded the efforts the OAG of ensuring that public resources are spent as approved budgets and appropriations. The increase in reporting of fraud cases and wasteful expenditure, points to the OAG's increasing effectiveness.

REQUIRED:

- (a) Explain the:
 - (i) objectives of public sector audits. **(6 Marks)**
 - (ii) different types of public sector audits undertaken by the OAG. **(4 Marks)**
 - (b) Discuss the key elements of an effective public sector audit activity. **(10 Marks)**
- (Total 20 Marks)**

