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**CERTIFIED PUBLIC ACCOUNTANT  
INTERMEDIATE LEVEL EXAMINATIONS**

**11.4: AUDITING**

**DATE: FRIDAY 31, MAY 2024**

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**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 three questions to choose two**
- 4. Five questions in total are to be attempted**
- 5. The question paper should not be taken out of the examination room.**

## SECTION A

### QUESTION ONE

M&C Ltd is specialized in design, supply and fixing of vehicles spare parts. It was established in 2018 by Moses and Patrick, two best mechanical engineers graduates from a reputable university in East Africa. Driven by acquired mechanical engineering skills, the founders found it suitable to hold the key positions in the management of the company whereby Moses and Patrick became the CEO and Chief of Design and Supply respectively. From its incorporation, the company has recorded a positive trend on revenues whereby in the financial year 2023, it reported earnings before interest tax depreciation and amortization (EBITDA) of FRW 5,800,000,000 compared to 3,500,000 in the year 2022.

From the growing market and trademark awareness, the CEO is convinced that the company will be listed on Rwanda Stock Exchange (RSE) in the next five years. The CEO accordingly requested the Finance Director to consult RSE, prepare, and present the roadmap for the listing journey. As per listing requirements in the presented roadmap by Finance Director to the management, the company opted to invest in corporate governance, which resulted to restructuring of company with immediate establishment of board of directors, internal audit department and an independent audit committee. After 6 months functioning of the new units on company's structure, the Finance Director recommended to hire an external auditor to have the company's financial statements audited from the 2023 onwards.

You are a junior auditor for an external auditing firm appointed to carry out the audit of M&C Ltd financial statements for the year 2023.

#### Required:

- a) Describe the audit methodology to be followed for the audit of M&C financial statements. (14 Marks)
  - b) In accordance with the ISA 210 "Agreeing the terms of audit engagement", define a term "assurance engagement". (2 Marks)
  - c) Differentiate between reasonable and absolute levels of assurance. (4 Marks)
- (Total: 20 Marks)**

### QUESTION TWO

- a) There are fundamental pillars of corporate governance and these are critical for successfully running of an organization and forming better relationship with different stakeholders.

#### Required:

- i) State FOUR fundamental pillars of corporate governance. (4 Marks)
- ii) Highlight FOUR ways in which an auditor might reduce their liability to third parties. (4 Marks)

b) Nirembere Fotune is a graduate from University of Kimironko (UK) and she is in Intermediate level of CPA Rwanda. She got employed by CC & KLA Associates as an audit assistant and assigned to audit NVG Ltd a company dealing with selling of cars and located in Mageragere sector of Nyarugenge district. This being her first audit field visit and in the absence of her audit senior, she was skeptical on discussing and requesting information from NVG Ltd management. This is attributed to her ignorance about her duties and rights as an auditor

**Required:**

**Explain to Nirembere Fotune THREE duties and THREE rights of an auditor.**

**(12 Marks)**

**(Total: 20 Marks)**

### **QUESTION THREE**

You are in charge of a group of new auditors who have just been employed by your audit firm. This is their first assignment and they are aware that they are supposed to prepare audit working papers as audit evidence but they do not know how to do so or what information they should include in the audit working papers.

During the induction week, your supervisor informs you that payroll and cash are key risk areas that you should focus on during your risk assessment process.

**Required:**

a) Describe FOUR controls an entity should establish to each of the following the following areas:

i. Payroll.

**(4 Marks)**

ii. Inventory.

**(4 Marks)**

b) Identify SIX types of information that the new auditors should include in the audit working papers. **(6 Marks)**

c) State SIX procedures used by auditors to obtain sufficient appropriate audit evidence. **(6 Marks)**

**(Total: 20 Marks)**

## SECTION B

### QUESTION FOUR

You are an auditor at M&C Partners. Your firm has been appointed by the Board of Directors of Ubuzima Hospital Ltd (UHL) to audit their financial statements for the year ended 31 December 2023. UHL is a private hospital offering various medical services. The following issues arose from the audit manager's audit planning and review of the hospital's financial statements:

- 1) UHL outsourced the services of an expert to prepare their books of accounts for the year under audit.
- 2) The hospital had made estimates over allowance for doubtful accounts resulting from the patients who get medical services upon urgencies but fail to pay their invoices.

Your audit manager has requested you to use computer-assisted audit techniques (CAATs) during the audit to ensure that as many transactions as possible are audited.

#### **Required:**

- (a) In line with the above, state **FOUR** factors you would consider in evaluating the appropriateness of the expert's work as audit evidence. (4 Marks)
  - (b) Define a term "Accounting estimate". (2 Marks)
  - (c) In accordance with ISA 540 "Auditing Accounting Estimates and Related Disclosures", Explain **THREE** audit procedures that the auditor is required to perform in response to the assessed risk accounting estimate. (6 Marks)
  - (d) In relation to computer-assisted audit techniques:
    - i. Identify and briefly describe **TWO** types of computer-assisted audit techniques. (4 Marks)
    - ii. Enumerate **FOUR** advantages of using computer-assisted audit techniques. (4 Marks)
- (Total: 20 Marks)**

### QUESTION FIVE

You are the audit Manager responsible for audit of IMENA Group for financial year ended on 31 March 2023. Your audit firm has just been appointed and you are currently in the final phase of the group audit. The following matters were discussed during your review with engagement partner:

- 1) The director's report for IMENA Group stated that the group has maintained a gross profit margin of 30%. This percentage did not tally with the income statement. During your review, you observe some other income items were considered when calculating the gross profit margin in the director's report. The auditor senior ignored this deviation in the director's report observing that it was not relevant to the financial statements.
- 2) The senior auditor has proposed a qualified audit opinion for the financial statements considering the materiality of the matters above.

**Required:**

- (a) Explain how auditors are appointed in accordance with the Law Governing Companies in Rwanda. (4 Marks)
  - (b) Discuss FIVE factors that the auditor must consider in order to form an audit opinion. (10 Marks)
  - (c) With reference to an auditor's report, briefly describe the matters that are included in the following Paragraphs:
    - i. Key Audit matters (2 Marks)
    - ii. Basis for Opinion (2 Marks)
    - iii. Going concern (2 Marks)
- (Total: 20 Marks)**

**QUESTION SIX**

You are a senior auditor in the Office of the Auditor General. You have been assigned to carry out a financial audit of XY Production Ltd, a state-owned enterprise, for the year ended 31 December 2023. You have been informed by your team leader that the final audit report shall be submitted to the Public Accounts Committee (PAC).

Your annual learning and development plan suggests that you will visit the International Organisation of Supreme Audit Institutions (INTOSAI) head offices as part of your capacity development plan for the year.

**Required:**

- a) Explain THREE responsibilities of the Auditor General. (6 marks)
  - b) Discuss the meaning and main role of Public Accounts Committee (PAC) in Rwanda. (4 marks)
  - c) State FOUR objective of the International Organisation of Supreme Audit Institutions (INTOSAI). (4 Marks)
  - d) List THREE types of entities that the Office of the Auditor General may audit. (3 Marks)
  - e) State THREE main types of public sector audits. (3 Marks)
- (Total: 20 Marks)**

**End of question paper**

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