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**CERTIFIED PUBLIC ACCOUNTANT
INTERMEDIATE LEVEL EXAMINATIONS
11.4: AUDITING
DAY: FRIDAY 01, DECEMBER 2023**

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. Question paper should not be taken out of the examination room

SECTION A

QUESTION ONE

ISA 315: Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment states that the objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, through providing a basis for designing and implementing responses to the assessed risks of material misstatement.

You are an Audit Senior for the audit engagement of Kamali Business Group (KBG) financial statements for the year ended 31 December 2022. This is your firm's second year of audit; however, you were not part of the previous audit engagement team. During the kick off meeting, your engagement partner presented the following highlights for the period under audit.

- The Finance Manager at KBG resigned in July 2022 due to personal reasons. Rumor has it that he was about to be fired due to unprofessional behavior but he decided to tender his resignation earlier.
- An accounting software crashed during the month of November 2022 and some transactions were not recovered when the system was rebooted. Finance unit is still investigating and reconciling to identify those transactions and have them reposted in the system.
- There has been a decrease of 10% of total revenue and a decrease of 5% of total expenditure compared to the previous year.
- One of the key machineries was damaged due to electricity and it is under repair.

Your engagement partner has requested you to address the above issues in your audit planning and risk assessment procedures for this engagement.

Required:

- (a) Explain the at least three objectives of obtaining an understanding of KBG' environment and how it is relevant to your engagement.** (6 Marks)
- (b) Demonstrate at least three responses to address each of the above highlights in your audit planning.** (12 Marks)
- (c) State other sources of information that can help the auditor to obtain an understanding of the entity and its environment.** (2 marks)

(Total: 20 Marks)

QUESTION TWO

When the auditor's assessment of risks of material misstatement includes an expectation that controls are operating effectively, the auditor should perform tests of controls to obtain sufficient and appropriate audit evidence to confirm that the controls are operating effectively.

You are an auditor with two years of experience at KC CPAs, and you're assigned to audit cash and cash equivalents for the Innovation Rwanda Ltd financial statements for the year ended 30 September 2022. This client (Innovation Rwanda Ltd) provides online buy and sell services, linking property owners and potential buyers. The owner of any property (car, plot, house etc.) that he/she wants to sell posts the product on Innovation Rwanda's website and later pays a commission fee after the sale is made. Payment is made online to the property owner's account via Momo or via online bank transfer. The owner later transfers the agreed commission fee to Innovation Rwanda bank or mobile money account.

During the entrance meeting with the management of Innovation Rwanda, you were also briefed that cash payments are made via bank transfers or cheques; however, the company keeps a petty cash for small payments.

Required:

- (a) **Why is it important to test controls around cash and cash equivalent regardless its materiality to the financial statements? State at least 4 reasons.** (4 Marks)
- (b) **Identify at least four control objectives at Innovation Rwanda Ltd and state their corresponding assertions, and propose relevant test of controls to be conducted on cash receipts and cash payments through the bank.** (10 Marks)
Note: it is encouraged to put your answer in a tabulated format.
- (c) **Identify at least three the assertion(s) and propose your substantive audit procedures to be conducted on cash receipts and cash payments through the petty cash and mobile money.** (6 Marks)

(Total: 20 Marks)

QUESTION THREE

The International Ethics Standards Board for Accountants (IESBA) is an independent global standard-setting board of IFAC. The IESBA's mission is to serve the public interest by setting ethics standards, including auditor independence requirements, which seek to raise the bar for ethical conduct and practice for all professional accountants through a robust, globally operable International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code). ICPAR as a full member of IFAC has adopted the IESBA Code of ethics in its regulation of the accountancy profession in Rwanda.

Karenzi & Sons Ltd Chairperson has approached your firm to assist in identifying and recommend actions on how to deal with some ethical issues transpiring in the conduct of its business. Your firm is not the current auditor of Karenzi & Sons Ltd, however, you had offered accounting services support in the preparation its financial statements under audit.

- During the ongoing audit, an auditor discovered fraudulent transactions passed by the Senior Accountant, and it was reported that the Senior Accountant was offering staggering amount of money to the auditor to ensure that those fraudulent transactions are not reported in the auditor's report.
- A junior accountant was hired during the year and it was discovered that he had lied about his completion of Certified Public Accountant (CPA) qualification. He had only passed intermediate level.
- Karenzi & Sons Ltd has requested your firm to replace the current auditor and provide audit services for the financial statements that your firm assisted the company to prepare.
- Chief Executive Officer (CEO) of Karenzi & Sons Ltd had threatened to fire the entire finance and accounting department in case the organization receives a modified audit opinion.

Required:

- Identify and explain the fundamental ethical principles for professional accountants in accordance with IESBA code of ethics.** (5 Marks)
- Identify threats and breaches to the fundamental ethical principles and propose safeguards that may reduce threats to an acceptable level.** (12 Marks)
- Describe circumstances under which it is allowed to disclose confidential information to third party.** (3 Marks)

(Total: 20 Marks)

SECTION B

QUESTION FOUR

ISA 510 provides guidance on audit of opening balances when the financial statements are audited for the first time and when the prior period was audited by another auditor.

You are an auditor at XYZ CPA Ltd and your engagement partner has assigned you to review opening balances for your client: Ikora Manufacturing Ltd, a company that specializes in the production of paints products that are mainly used on buildings in Rwanda. The company had been audited by another audit firm from the previous year. That firm has refused to share any documentation or information relating to the audit of last year's financial statements. Below is the extract of Ikora Manufacturing Ltd opening balances:

Item	(20x-1) FRW (000)
Cash and cash equivalents	500
Inventory	1,000
PPE	5,000
Receivables	400
payables	300
Total assets/ total liabilities	10,000

At the completion of your audit field work, your engagement manager requested you to receive a management representation as required by ISA 580. Your audit procedures in line with ISA 570 (revised) are casting doubt on the company's going concern and the management has expressed that this issue will be covered in the written representation to be issued by showing future prospects of the company.

Required:

- (a) Identify at least your 3 test objectives on opening balances.** (3 Marks)
 - (b) Clearly explain your audit procedures on opening balances for inventory, property plant and equipment, receivables and payables. Give at least 3 audit procedures under each account balance.** (12 Marks)
 - (c) Describe the at least three objectives of written representations by management and state whether management response will impact your going concern assessment.** (5 Marks)
- (Total: 20 Marks)**

QUESTION FIVE

ISA 560 state that subsequent events are events occurring between the period end and the date of the auditor's report and also include facts discovered after the auditor's report has been issued. Auditors shall consider the effect of such events on the financial statements and on their audit opinion.

You are an Audit Senior at PTC CPA Ltd for the engagement to audit Jeko Ltd.'s financial statements for the year ended 31 December 2022. Jeko Ltd is a manufacturing company that produces timber and other wood materials for construction and the production of furniture. During the kick off meeting with engagement partner, the following were presented:

- During the month of January 2023, a fire broke in the wood and timber warehouse and a significant portion of the inventory was burnt down. It was reported that the inventory included materials purchased before and after the year end.
- During your physical inspection of the property plant and equipment, you noted that one motor vehicle was in the garage and its driver told you that its engine was severely damaged and there is a possibility that the motor vehicle may not work again unless a new engine is installed.
- A new competitor has entered the market in the start of the year 2023 and it is reported that it offers better quality timber and wood materials than Jeko Ltd. Many are suspecting that JEKO Ltd may go out of the market in the near future.

Required:

- (a) In accordance with IAS 10, **describe two types of subsequent events** (4 Marks)
 - (b) From the above highlights, **identify which events are adjusting or non-adjusting events to the financial statements of Jeko Ltd for the year ended 31 December 2022 and explain why.** (9 Marks)
 - (c) **Describe the steps that your engagement partner should take before he/she forms his/her audit opinion on financial statements of Jeko Ltd.** (7 Marks)
- (Total: 20 Marks)**

QUESTION SIX

Your firm, TA & Associates CPA Ltd was contracted by the office of Auditor General of Rwanda to conduct the audit the financial statements of Bugesera District Hospital for the year ended 30 June 2022. Bugesera District Hospital is 100% fully owned by the government and it offers various services to citizens of Bugesera district.

During your kick off meeting, your engagement manager highlighted the following:

- 90% of the Hospital's accounts receivable are from Community Based Health Insurance (Mutuelle de santé) and 50% are overdue by one year or more. Accounts receivables are material to the financial statements.
- All invoices to Rwanda Social Security Board (RSSB) are submitted on a monthly basis. Those invoices must be approved by the RSSB officer based at the hospital, who checks for the prices of services, treatment and drugs to insured patients before the invoice is submitted for payment. Often, the approved amounts by RSSB officer are less than the hospital's original invoice. RSSB covers 90% of the medial charges of insured patients. This significantly affects the Hospital's cash flow management and affects its running activities. The Hospital also works with other regulated insurance companies.
- The Hospital has over 60 staff with a majority being in the core services (doctors, nurses etc). Your engagement manager highlighted that monthly payroll is prepared by Human resources and payment prepared by the finance department. He also stressed that there had been poor keeping of staff files where when a new staff joins or a staff leaves, it may not be recorded on time.

As an audit senior on this engagement, please address the following.

Required:

- (a) Explain at least 4 key audit assertions for the audit of accounts receivables of the Hospital.** (4 Marks)
 - (b) Discuss your audit procedures to address those assertions.** (10 Marks)
 - (c) Describe at least six audit procedures on Bugesera District Hospital's payroll costs.** (6 Marks)
- (Total: 20 Marks)**

End of question paper

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