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**CERTIFIED PUBLIC ACCOUNTANT  
INTERMEDIATE LEVEL EXAMINATIONS**

**11.4: AUDITING**

**DATE: FRIDAY, 01 APRIL 2022**

**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

You are the senior auditor for Masoro Computer Ltd, a distributor of computers, and have just completed the interim audit for the six months ended 30 June 2021. When you and your team members were auditing the accounting records, systems and controls, you recorded in your audit files the following information:

- i. The credit limits for four customers of Masoro Computer Ltd had been substantially exceeded and new customers in the last twelve months had not been allocated credit limits.
- ii. When testing a sample of 15 purchase invoices, you noted that one purchase invoice had been posted twice to the purchase's ledger by mistake and two other purchase invoices could not be traced.
- iii. The results of a stock take conducted at the half year revealed that some computers that were supposed to be in stock, were missing and that other computers which had been returned by customers were in stock but had not been recorded, as having been returned. A few of the missing computers have been traced to directors and staff who have borrowed them for personal use at home.
- iv. Leasing agreement for computers offered by Masoro Computer Ltd to its customers have been queried by the Rwanda Revenue Authority (RRA), which is not satisfied that the terms of the agreement which give the customers the right to purchase the equipment at a future date, qualify them as leases as opposed to hire purchase agreements. These agreements have been in use for a number of years and were developed by your firm.

#### **Required:**

- (a) **Draft a management letter addressed to the board of directors, commenting on the weaknesses you have discovered, the risks arising from those weaknesses and your recommendations for improvements.** (12 Marks)
  - (b) **Comment on any significant impact these matters may have on your year-end audit work.** (4 Marks)
  - (c) **Describe four (4) limitations facing auditors in undertaking their work.** (4 Marks)
- (Total: 20Marks)**

## QUESTION TWO

An auditor must gain an understanding of the business of a client, and the environment in which it operates because it is a crucial part of the audit planning process. ISA 315 (Revised):

Obtaining an understanding of the entity and its environment, and assessing the risks of material misstatement, provides guidance on this matter. The concern is that the auditor must have a thorough understanding of many aspects of the client's business and environment in order to be able to assess risk, decide on an appropriate audit strategy, and be able to design and perform effective audit procedures.

### Required:

- (a) In accordance with ISA 315, explain five (5) main aspects of the client's business and environment which the auditor should understand. (10 Marks)
- (b) Explain four (4) procedures an auditor can use to gain understanding of client's business and environment (4 Marks)
- (c) Differentiate inherent, control and detection risks (6 Marks)

(Total: 20Marks)

## QUESTION THREE

- (a) State the respective responsibilities of the directors and management of a company and its external auditors with respect to the financial statements. (2 Marks)
- (b) State Three (3) limitations of audit evidence (3 Marks)
- (c) List four (4) factors that may lessen sampling risk (4 Marks)
- (d) State eight (8) forms of audit evidence? (8 Marks)
- (e) What are three (3) advice could give to an auditor who suspect the Risk of Material Misstatements in a client's financial statements (3 Marks)

(Total: 20Marks)



## SECTION B

### QUESTION FOUR

You are the auditor of **Kigufuri & Gakweto (KG) Ltd.** The company consists of a head office and a chain of 200 shoe repair kiosks and keys making. These kiosks are located in shopping centers, and each is run by a single staff member who repairs shoes and cuts keys while customers wait. The staff are paid themselves on monthly basis from the cash collected and the cash balances are kept in hands on monthly basis by company's cash collectors. Sometimes each staff makes purchases of raw materials anytime without any basis and other authorizations.

In an attempt to increase turnover, **KG Ltd** recently advertised that all workmanship in the kiosks would be guaranteed for three months. However, this additional service has not resulted in the expected additional sales as per assessments conducted by management. Management believes incremental revenue is being misappropriated by certain kiosk operators.

In addition, it has come to your attention that various components, namely heels, soles and keys are being removed from kiosks by certain operators and sold to competitors. Instances have also been found where operators regularly repair shoes for friends without charging them.

Although each kiosk has a register, controls and procedures in the chain are currently weak and head office management has asked for your advice on desirable internal control procedure to be implemented.

#### **Required:**

**List four (4) internal control procedures (for each account) you would expect to find that would prevent risk of material misstatement and provide adequate controls over:**

- (a) Sales** (4 Marks)
- (b) Stock** (4 Marks)
- (c) Purchases** (4 Marks)
- (d) Payroll** (4 Marks)
- (e) Cash receipts and disbursement** (4 Marks)

**(Total: 20Marks)**

### QUESTION FIVE

**States any Four (4) audit procedures you would perform while auditing each of the below accounts:**

- (a) Tangible fixed assets (4 Marks)**
- (b) Accounts receivable and prepayments (4 Marks)**
- (c) Bank and cash balances (4 Marks)**
- (d) Accounts Payable and provisions for liabilities (4 Marks)**
- (e) Share capital (4 Marks)**

**(Total: 20Marks)**

### QUESTION SIX

Auditor's reports are important to users of financial statements because they inform users of the auditor's opinion as to whether or not the statements are fairly stated or whether no conclusion can be made with regard to the fairness of their presentation. Users especially look for any material information that may impact the company's image and the reasons and implications before or continue dealing with the company. When the auditor's reports show departures from standards and good practices, users are more likely to stop working with a company.

**Required:**

Basing on the above information:

- (a) State the objective of an independent external auditor for financial statements (2 Marks)**
- (b) What responsibility does the auditor have for an information on the company's web site that may be linked to electronic versions of the company's annual financial statements and auditor's report? (2 Marks)**
- (c) How does the above responsibility in (b) differ from the auditor's responsibility for other information in the company's annual report that includes the financial statements and auditor's report? (4 Marks)**
- (d) Explain any 12 basic elements of the Auditor's Report (12 Marks)**

**(Total: 20Marks)**

**End of question paper**







