

three questions to choose **two**

4. **Five** questions in total are to be attempted

5. All ICPAR Examination rules and regulations apply



**CERTIFIED PUBLIC ACCOUNTANT
INTERMEDIATE LEVEL EXAMINATIONS**

I1.4: AUDITING

DATE: FRIDAY, 03 DECEMBER 2021

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

You are the audit senior of KLA & Co and you are reviewing the documentation describing NVG Co's purchases and payables system in preparation of audit for the year ended 31 December 2020. The company sells made in Rwanda clothes, has 25 stores and a central warehouse located in Magera Sector.

Your firm audited NVG Company 3 years ago and as such, audit documentation is available from the previous audit files. NVG Company's internal control system did not change in the last three years. The audit director is keen for the team to utilize existing systems documentation in order to ensure audit efficiency.

An extract from the existing system notes for purchases and payables is provided below:

Store managers are responsible for ordering clothes for their shop. It is not possible for a store manager to request clothes from any other store. Customers who wish to order clothes, which are not in the stock at the branch visited, are told to contact other stores directly. In case of low inventory level, store managers raise a purchase requisition form, which is sent to the central store. If there is insufficient inventory held, a supplier requisition form is completed and sent to the purchase order clerk, Peter, who is in charge of processing the purchase orders, sends any orders above FRW 150 million for authorization to the purchase manager.

Receipts of goods from suppliers are processed by warehouse team members, who agree the delivery to the order, checking quantity and quality of goods and complete the goods received note (GRN). The GRN's are sent to the accountants every three weeks for processing.

On the receipt of the invoices from the supplier, an accountant matches with the GRN and purchase order. The invoice is then sent to a purchase ordering clerk to process the payment. The finance director is given the total amount of the payment list, which they authorize and then process payment. The supplier statement reconciliation done after due to shortage of staff.

Other information

Due to many transactions handled by the company, management is in the process of hiring your auditing firm for performance audit or value for money audit.

Required:

- a) **State at least four types of control activities in a Company.** (4 Marks)
- b) In respect of purchases and payables system of NVG Company, **describe Four control deficiencies, control recommendations and corresponding test of controls that the auditor should perform to assess if each of these controls is operating effectively to reduce deficiencies to the company.** (12 Marks)

Hint: use a table to indicate the test of control, control deficiency and the corresponding control recommendation.

- c) As a senior auditor, **explain to NVG Co management the difference between Performance audit and value for money audit.** (4 Marks)
(Total: 20 Marks)

QUESTION TWO

CC & MIGAMBI Associates operates 31 food mini markets in all the districts of Rwanda, including the city of Kigali. The company's year-end is 31 December 2020. You are the audit senior and together with the audit director, you have recently attended a planning meeting with the finance director and the meetings notes are summarized below:

In order to familiarize yourself with CC & MIGAMBI Associates, the audit director has requested you to undertake some more research in order to gain an understanding of the company in order to assist him in audit planning and reporting activities.

It was stated that CC & MIGAMBI Associates spent FRW 850 million in repairing all of its mini markets and extended its central warehouse. In order to finance this repair and extension, the company borrowed FRW 780 million from Umutanguha Bank (with a loan of 10 years).

The company performed a year-end inventory count at the central store located in Kigali industrial zone, as well as at all of its 31 mini markets. Inventory was valued at a selling price less an average profit margin, as the finance director believes that this is an approximation of cost. At the beginning of the year, each mini markets' opening balances were transferred into head office accounting records.

Required:

- a) **Identify and explain four sources of information that would be of use in gaining an understanding of CC & MIGAMBI Associates.** (8 Marks)
- b) **Identify four audit risks and explain your response to each risk in planning for the audit of CC & MIGAMBI Associates.** (8 Marks)
- c) **Describe auditor's responsibilities before and after issuing audit report of CC & MIGAMBI Associates.** (4 Marks)
(Total: 20 Marks)

QUESTION THREE

You are an audit senior of TMC & Associates Ltd and your audit firm is conducting an audit of BAZIRETE Company Limited financial statements for the year ended 31 December 2020. You have received a letter from the Company's legal advisor indicating that the company is a defendant in a lawsuit alleging infringement of certain patent rights. The company has failed a counter claim and preliminary hearings are in progress. If the Company loses the case, it is likely to face a loss of FRW 400 million.

In addition, due to loss of reputation associated with losing the case, the Company going concern may be put into question. As audit senior, you are required by audit partner to lead this audit assignment and advise on the issue of the audit opinion.

Required:

- a) **Explain Three reasons why an absolute level of assurance may not be given for an audit of financial statements.** (6 Marks)
- b) **As an audit senior, describe any Four audit procedures with use of examples that you would perform in order to obtain sufficient audit evidence to be able to form an opinion on the going concern status of BAZIRETE Company.** (8 Marks)
- c) **With examples, explain emphasis of the matter paragraph and matters that lead to modified auditor's opinion.** (6 Marks)

(Total: 20 Marks)

SECTION B

QUESTION FOUR

The Office of the Auditor General of State Finances [OAG] is the Supreme Audit Institution [SAI] of Rwanda. The OAG was established in 1998 by the Rwandan Constitution, article 165 (amended), which stipulates the responsibilities the Office of Auditor General. OAG is also governed by Law n° 79/2013 of 11/09/2013, determining the mission, organization and functioning of the office of the auditor general of state finances.

Recently you joined Office of auditor General as Audit Assistant, and you are part of the team auditing Gasabo District financial statements for the year ended 30 June 2021.

Required:

- a) **Explain to Gasabo District accountant Three main responsibilities of the Office of Auditor General (OAG).** (6 Marks)
 - b) According to International standard on Auditing (ISA) 200: Overall objectives of the independent auditor and conduct of an audit in accordance with ISAs, **Describe Four decisions in which an independent auditor should apply professional judgement.** (8 Marks)
 - c) **Discuss Three conditions that must be met in order to hold an auditor liable for negligence.** (6 Marks)
- (Total: 20 Marks)**

QUESTION FIVE

Your firm has been appointed as external auditor of SAKINDI Ltd, a company manufacturing tiles for the year ended 31 December 2020. ISA 230: Audit documentation states that all audit work must be documented. The working papers are the tangible evidence of the work done in support of the audit opinion. ISA 230 provides guidance and requires that audit documentation is prepared on a timely basis.

During your initial review, you noted from the internal audit report that SAKINDI ltd financial statements were materially misstated, and you noted that it was going to affect your audit strategy.

Required:

- a) **Define inherent risk and outline four factors that can affect inherent risk at the entity level.** (6 Marks)
 - b) **State two factors that can affect inherent risk at the account balance and class of transactions level.** (2 Marks)
 - c) **Discuss the auditor overall responses to the risk of material misstatement at financial statement level that can result to the change of audit strategy.** (4 Marks)
 - d) Highlight **Eight** contents of a well-maintained audit workings paper files. (8 Marks)
- (Total: 20 Marks)**

QUESTION SIX

You are a senior member of the audit team for EJOHEZA Ltd, a Company which specializes in milling maize, wheat and other various products for local and international markets. As an experienced member of the team, your audit manager has requested you to draw audit samples from financial statements line items to be tested by the audit team, including junior auditors.

Also, EJOHEZA is in the process of acquiring a comprehensive computer system to manage its accounting and administration function and they hope that your next year's audit will be considerate of this new development.

Required:

- a) **State and explain Five factors that will influence you in selecting different sample sizes for various financial statements line items.** (10 Marks)
- b) **Explain to management the difference between audit around and through computer.** (4 Marks)
- c) **Describe Four difficulties you may encounter in the use of test computerized system data.** (6 Marks)

(Total: 20 Marks)

End of Question Paper