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**CERTIFIED PUBLIC ACCOUNTANT  
INTERMEDIATE LEVEL EXAMINATIONS**

**I1.4: AUDITING**

**DATE: FRIDAY, 30 APRIL 2021**

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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 B has three questions of which **two** Should be attempted.
4. In summary attempt **Five** questions.
5. Marks allocated to each question are shown at the end of the question.

## SECTION A

### QUESTION ONE

You have been appointed as the external auditor of Mupenzi & Sons Ltd, a company specialized in selling the computers. For the year ended 31 December 2019, the Audit Manager assigned you to review the company's financial statements and the procurement process of the company and then after you will be required to prepare the audit report.

**Required:**

- a) **Describe considerations on overall review of financial statements of this company.** (10 Marks)
- b) **As an auditor assigned to prepare the audit report, describe matters that may be considered before forming an audit opinion of this company.** (4 Marks)
- c) During the audit of Mupenzi & Sons Ltd. You suspect that there might have been some irregularities in the procurement department based on discussions you had with the internal auditor of this company.

**Required:**

**Explain six audit steps you would consider to undertake in arriving at an appropriate audit opinion.** (6 Marks)

**(Total:20 Marks)**

### QUESTION TWO:

- a) Nyirandibwami Janet is a graduate from University of Rwanda and she is in intermediate level of CPA Rwanda, she joined CP& Associates as an assistant auditor in her first assignment of BM Ltd, a manufacturing company located in Karongi District. In this assignment she heard other senior auditors discuss on auditing accounting estimates. As an audit senior, explain to her the following:
  - i) **Briefly explain to her the meaning of accounting estimates with examples of where accounting estimates are required.** (6 Marks)
  - ii) **Explain clearly the audit procedures likely to be carried out in an audit of accounting estimates as per ISA 540 (Auditing accounting estimates).** (8 Marks)

- b) You have been appointed the auditor of Migambi Ltd, a company located in Ngoma district and as part of the audit you have requested management to provide you with a letter of representation.

**Required:**

**Discuss three matters you would expect to find in this letter in relation to management responsibilities.** (6 Marks)

**(Total: 20 Marks)**

**QUESTION THREE**

Your audit firm BN and associates, certified public accountants have newly appointed you as an Audit Senior. Your audit firm is currently in audit of Nzabandora Ltd, a company engaged in sales of motor vehicles. Internal controls of this company are very weak as highlighted by the internal auditors.

As a senior auditor in this firm before starting this audit assignment please explain the following to the audit assistant:

- a. **The quality control procedures that an audit firm should put in place to minimise its liability.** (4Marks)
- b. **Two distinctions between the respective responsibilities of external auditors and those of client's management with respect to internal control systems.** (4 Marks)
- c. **Meaning and components of internal controls system.** (4 Marks)
- d. **Describe tests of controls to be conducted for sales and receivables.** (4Marks)
- e. **In your firm, you use standardized audit programmes before starting the audit, briefly explain to the audit assistant two advantages and two disadvantages of using standardized audit programmes.** (4Marks)

**(Total :20 Marks)**

## SECTION B

### QUESTION FOUR

You are an audit senior in Mugisha & Associates and you are currently in audit of Muneza supply Company (MSC). MSC have been making losses for the last 5 years. During the audit process, the audit senior noted that the company have had fraudulent activities and the company senior management proposed to pay **Frw 15,000,000** to the audit senior and told him to remove the fraudulent case in the audit report.

In addition, the management of the company told the audit senior that if he insists to report this fraud case, then his audit firm will directly be disqualified from auditing this company and they will recruit another audit firm. As the Audit senior, explain to management the following:

- a. **Auditor's responsibilities with regard to detection of errors and fraud.** (8Marks)
  - b. **Discuss four conditions that must be met in order to hold an auditor liable for negligence of duty.** (6Marks)
  - c. **Explain to Muneza Supply company the pre-appointment procedures of an auditor.** (6Marks)
- (Total:20Marks)**

### QUESTION FIVE

You are the auditor in charge of Kamanzi manufacturing company. During the entry meeting with management, you discussed a lot on subsequent events prepared by management which your audit assistant is not familiar with.

The audit assistant who assisted you in the audit asked you to give him explanations about subsequent events before starting field work.

#### **Required:**

- a) In context of International Auditing Standards 560, explain to your audit assistant the following:
  - i) **Meaning of subsequent events.** (2 Marks)
  - ii) **Describe four audit objectives of the auditor in reviewing subsequent events.** (6 Marks)
  - iii) **Describe four audit procedures necessary that can help the auditor to obtain evidences relating to subsequent events.** (6 Marks)
- b) After the end of audit work, an auditor must prepare the audit report.

**Explain to your audit assistant two conditions in which the auditor can modify an audit report.** (6 Marks)

**(Total:20 Marks)**

## QUESTION SIX

Kalisa and associates is an experienced audit firm in Rwanda and it is currently auditing SDP petroleum Ltd for the year ended 31 December 2019. You are a member of the audit team and the following information relates to the client:

- a) The company has thirty petrol stations which are equally distributed in all 30 districts of the country
- b) Each petrol station sells fuel, has car wash services, a garage and a supermarket.
- c) The cashier of the petrol station reports monthly to the head office located in Kigali city.

### Required:

- i) Describe the components of audit risk and identify 4 risk areas that your firm would consider when developing the audit plan of this company. (5 Marks)
  - ii) Outline the ways in which as an auditor you will obtain the understanding of this company. (6Marks)
  - iii) Briefly explain the two stages in which an auditor considers materiality in the course of his audit work. (4 Marks)
  - iv) Explain how you will respond to the risk of material misstatement assessed on financial statements. (5 Marks)
- (Total:20 Marks)**

## QUESTION SEVEN

Mukire & Sons Ltd, is a company exporting above 80% of Rwandan total exports. The company dismissed their external auditors and recently there is another auditing firm that resigned from providing audit service to this company. The director approached your firm of accountants to act as their external auditors and proposed an audit fee of Frw 65,000,000.

### Required:

- i) Explain to your audit partner the procedures to be followed before accepting this audit assignment. (6 Marks)
  - ii) Describe four reasons why an auditor might resign from office. (4 Marks)
  - iii) Describe the procedures that the auditor should follow when resigning from office. (6 Marks)
  - iv) Briefly explain four reasons why an auditor might be removed from the office by the company. (4 Marks)
- (Total:20 Marks)**

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