
**CERTIFIED PUBLIC ACCOUNTANT
INTERMEDIATE LEVEL EXAMINATION**

11.4: AUDITING

THURSDAY 5 DECEMBER 2013

INSTRUCTIONS:

- 1. Time Allowed: 3 hours 15 minutes (15 minutes reading and 3 hours writing).**
- 2. This examination has two sections; A and B.**
- 3. Section A has three compulsory questions; 1, 2 and 3.**
- 4. Section B has four questions to attempt two**
- 5. In summary attempt five questions, three in section A and two in sections B.**
- 6. Marks allocated to each question are shown at the end of the question.**

SECTION A

Attempt all questions in this section.

QUESTION ONE

You have been recently engaged on the audit of Bodas, an association of tour operators with its branches spread across the country. One of the major risks you have identified is in the payroll section where you have noted that the directors are concerned with the rising wage bill every quarter when no recruitment of new staff has been carried out and there seems to be no appropriate internal controls.

Required:

- a) What do you understand by the term “internal control”? (3 Marks)
- b) What do you understand by the term “risk”? (3 Marks)
- c) Having identified that there are no appropriate internal controls in the pay roll system, recommend key internal controls to be implemented. (10 Marks)
- (c) During the audit the directors reported one employee claiming to have been paid less than expected. Point the audit tests you would carry out to verify the claim. (4 Marks).

(Total 20 Marks)

QUESTION TWO

You are the Audit Manager of Innovations auditors and you sent out a team to carry out an audit of Big Shop Company. During the planning stage, you identified non-current assets (mainly motor vehicles) to be material to the audit process. You agreed with the audit team to obtain reliable, relevant and sufficient evidence, the ownership, valuation and existence of clients’ current assets.

Required:

Briefly explain the procedures you would carry out to confirm the following;

- i. Ownership
 - ii. Valuation
 - iii. Existence.
- (12 Marks)
- (b) Errors and omissions in financial statements are some of the areas that auditors need to pay attention to.

Required:

Explain what you understand by the terms;

- i. Errors.
 - ii. Omissions
- (4 Marks)
- (ii) Suggest actions you would take on discovering errors and omissions in the financial statements.

(4 Marks)

(Total 20 Marks)

QUESTION THREE

You have been appointed the audit team leader of an audit for A-Z Co Ltd and assigned five audit trainees to work with. Most of these auditors started working with your audit firm recently. One of the trainees, while discussing with his peers, gathered that an audit process involves several letters namely; engagement letter, management letter and letter of representation and has approached you for guidance.

Required:

- (a) Explain to your audit team how the following letters will be used during the audit of A-Z Co Ltd:
- (i) Engagement letter.
 - (ii) Management letter.
 - (iii) Letter of representation.
- (b) Explain the need for the frequent renewal of an engagement letter. (4 Marks)
- (c) Explain the best course of action for an auditor if the client refuses to sign letter of representation (4 Marks)

(Total 20 Marks)

SECTION B

Attempt two questions in this section

QUESTION FOUR

Explain what you understand by the following expressions and terms in audit.

- (a) Audit trail. (5 Marks)
- (b) Materiality. (5 Marks)
- (c) Standards on Auditing. (5 Marks)
- (d) Audit evidence. (5 Marks)

Total 20 Marks

QUESTION FIVE

You are the audit senior in charge of the audit of Cotton Ltd. The audit assistants who assisted you with the audit present you with files on completion of the audit for the year ending 31 December 2012.

- a) Give reasons why audit working papers are prepared. (4 Marks)
- b) List categories of items that will be included in audit working papers. (8 Marks)
- c) Audit programs are key to completing audit assignments.
- i. Explain what an audit program means. (4 Marks)
 - ii. Briefly give the advantages and disadvantages of standardized audit programmes. (4 Marks)

(4 Marks)

(Total 20 Marks)

QUESTION SIX

Audit opinion is the major output of an audit assignment. Auditors issue different opinions depending on the audit findings. A group of audit trainees recently attended a seminar and heard about the different types of opinions namely; unqualified, qualified, except for and limitation of scope. The trainees have approached you for guidance.

Required:

- (a) With examples, explain the different types of audit opinions. **(16 Marks)**
- (b) Most audit reports include the phrase “true and fair view”. Explain what the phrase means **(4 Marks)**

(Total 20 Marks)

QUESTION SEVEN

The importance of audit reports is underscored by the various users including directors, shareholders, financiers, stock exchange and other stakeholders. Because of this, the auditors need to be regulated with regard to the quality of the audits.

Required:

- (a) Identify the regulating body for auditors in Rwanda **(2 Marks)**
- (b) Explain how each of the following principles is important in effective performance of audit work;

- (i) Independence
- (ii) Objectivity
- (iii) Confidentiality

(12 Marks)

- (c) Most stakeholders expect auditors to identify and report on fraud. Explain the responsibilities of auditors with regard to fraud. **(6 Marks)**

(Total 20 Marks)

End of question paper