

CERTIFIED PUBLIC ACCOUNTANT

LEVEL 2 EXAMINATIONS

L2.5: AUDITING

WEDNESDAY: 29 NOVEMBER 2017

INSTRUCTIONS:

1. **Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has **seven (7)** questions and only **five (5)** questions are to be attempted.
3. Marks allocated to each question are shown at the end of the question.
4. All iCPAR Examination rules and regulations apply.

Attempt any five questions

QUESTION ONE

You are a Finance Assistant at GM Retailers and pursuing a Certified Accounting Technician course at Success Business Institute in Kigali. You applied for a position of an audit assistant in the Office of the Auditor General (OAG) of Rwanda. You have been invited for a written interview. In preparation for the interview, you have read the topics of external audit and audit committees and you feel you can adequately answer any question.

REQUIRED:

- (a) Explain the benefits and limitations of having an external audit. **(12 Marks)**
- (b) (i) State the role and responsibilities of audit committees. **(4 Marks)**
(ii) Outline the merits of audit committees. **(4 Marks)**

(Total 20 Marks)

QUESTION TWO

International Standard on Auditing (ISA) 500: Audit Evidence provides guidance on the audit procedures used for obtaining audit evidence to support the financial statements assertions. These include substantive procedures used to obtain audit evidence to detect material misstatements in the financial statements. You are an audit senior in charge of field audit of Mwogo Construction Limited a local building and construction company located in Bugesera district, and you are reviewing the non-current assets section of the current audit file for the year ended 31 December, 2016. You find the following four matters which the audit associate has identified as problem areas. The audit associate is reviewing the company's proposed treatment of the four transactions in the accounts and is not sure that he has yet carried out sufficient audit work.

1	During the year, Mwogo Construction Limited built a new canteen for its own staff at a cost of Frw 100, 000,000. This amount has been included in the buildings as at 31 December, 2016.
2	A dumper truck previously written off in the company's accounting records has been refurbished at a cost of Frw 15,000,000 and this amount included in plant and machinery as at 31 December, 2016.
3	The Company's main office block has been revalued from Frw 450,000,000 to Frw 500,000,000 and this amount included in the statement of financial position as at 31 December, 2016.
4	A deposit of Frw 80,000,000 for new equipment has been included under plant &

	machinery although the final installment of Frw. 50,000,000 was not yet paid by 31 December 2016 which was the date of delivery of the plant.
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REQUIRED:

As the audit senior, you are required to:

- (a) Explain the tests on transactions and balances that can be used to discover errors and omissions in financial statements. **(5 Marks)**
 - (b) For each of the above matters, outline the audit work and evidence required to substantiate the assets. **(12 Marks)**
 - (c) Explain any **five** audit objectives for non-current assets. **(3 Marks)**
- (Total 20 Marks)**

QUESTION THREE

Ngoga & Co have been auditors of High Fly Transporters Ltd (HFTL) based in Byumba town for the last two years. HFTL has a sister company, Trusted Transporters Ltd (TTL), based in Nyanza town. TTL has awarded Ngoga & Co the tender to audit their financial statements. The audit partner has assigned you to carry out acceptance procedures in order to comply with the provisions in International Standard on Quality Control (ISQC) 1. Meanwhile the directors of HFTL have discovered that Ngoga & Co have been colluding with management to defraud the company. The directors are not sure whether Ngoga & Co should resign or be removed from auditing both companies.

REQUIRED:

- (a) Explain to the audit partner the procedures to be followed before accepting an audit assignment. **(6 Marks)**
 - (b) Enlighten the directors of HFTL and TTL on the circumstances under which the auditor may:
 - (i) Resign from an appointment. **(7 Marks)**
 - (ii) Be removed from an appointment. **(7 Marks)**
- (Total 20 Marks)**

QUESTION FOUR

International Standard on Auditing (ISA) 315: Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, states that the auditor should obtain an understanding of internal controls relevant to the audit. The auditor uses this understanding to identify types of potential/ material misstatements and to help design the nature, timing and extent of further audit procedures. There are various options available for recording the internal control system. Two of these are flow charts and internal control questionnaires.

REQUIRED:

Explain what you understand by the following terms:

- (a) 'Flow charts' and state their benefits to the auditor. **(10 Marks)**
- (b) 'Internal control questionnaires' and state their benefits to the auditor. **(10 Marks)**

(Total 20 Marks)

QUESTION FIVE

According to International Standard on Auditing (ISA) 700 Forming an Opinion and Reporting on Financial Statements, the auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of their report that may require adjustment or disclosure in the financial statements have been identified. These procedures should take place as near as possible to the date of the auditor's report. They would include for example, reading minutes of their meetings with shareholders and the audit committee, reviewing the entity's interim accounts and reviewing procedures that management has put in place for identifying subsequent events. The auditor shall request management and those charged with governance to provide a written representation that all subsequent events requiring adjustment or disclosure have been adjusted or disclosed.

REQUIRED:

Explain:

- (a) Any **five** review considerations on the overall review of financial statements by the auditor. **(10 Marks)**
- (b) Any **two** matters that should be considered by the auditor before forming an opinion. **(4 Marks)**
- (c) The process of forming an audit opinion. **(6 Marks)**

(Total 20 Marks)

QUESTION SIX

There has been a revolution in the past few years relating to information technology. We have seen a change in employees' day-to-day working habits across almost every industry. Changes to working practices and technology have seen businesses choosing to arm their staff with the tools needed to work from any location at any time. One such tools is the on-line system.

REQUIRED:

- (a) (i) Describe an 'on-line' system and outline its functions in the work place.

(5 Marks)

- (ii) Explain the challenges in the use of online systems. **(5 Marks)**
- (b) Describe 'the term 'e-business' and the challenges an audit firm would face in the audit of an e-business based entity. **(10 Marks)**
- (Total 20 Marks)**

QUESTION SEVEN

You are an auditor at Keza & Co and part of the team that is auditing Kibuye Meat Packers Ltd (KMPL), a small start-up business in the west province. You are in charge of auditing accounting estimates. The management of KMPL has asked you to propose appropriate accounting estimates that could have been omitted in the financial statements because it is the first time they are having an audit and are not sure of how to go about it. Management has also noted that they are required to write a management representation which they think is not necessary.

REQUIRED:

- (a) (i) Explain to the management of KMPL the meaning of accounting estimates according to International Standard on Auditing (ISA) 540: Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures, giving examples and who is responsible for making the estimates. **(4 Marks)**
- (ii) Identify the audit objectives of accounting estimates and audit procedures you are likely to carry out in the audit of accounting estimates. **(7 Marks)**
- (b) (i) Clarify to management what a management representation is and why it is necessary for management to write it. **(4 Marks)**
- (ii) State the statements commonly included in a management representation. **(5 Marks)**
- (Total 20 Marks)**

End of question paper