



**CERTIFIED PUBLIC ACCOUNTANT
INTERMEDIATE LEVEL EXAMINATIONS**

I1.4: AUDITING

DATE: FRIDAY 30, AUGUST 2024

INSTRUCTIONS:

1. **Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has **two** sections: **A & B**.
3. Section **A** Has **Three Compulsory Question** while section **B** has **three optional questions** to choose any **two**.
4. **Five questions** in total are to be attempted.
5. The question paper should not be taken out of examination room.

SECTION A

QUESTION ONE

Kigali Fresh Ltd is a newly incorporated company in Rwanda. The company deals with export of agricultural products, which are mainly grown in Rwanda. The company grows some of the crops in its owned farms located in Kayonza, Kamonyi, Nyagatare and Rusizi and purchases some of the crops from out growers. Some of its crops are locally sold in local market. The Kigali Fresh Ltd head office is located at Magerwa where all its administration activities are carried out.

The company has employed a farm manager in each of its farms whose duties are not limited to the following:

1. Employ casual workers in the farm to undertake daily farm activities.
2. Prepare weekly casual worker's payroll to be submitted to accounts department at the head office for payment.
3. To prepare farm budget for each season.
4. Advise the company on the crops to be grown in each season of the year.
5. To make arrangements and sell any crops from the farm that were not exported.
6. Prepare and send monthly farm reports to the head office.

All the farm inputs including the crop seeds are received in the head office from suppliers and then transferred to the farms upon request of the farm managers. The farm inputs can either be transferred to the farms by company lorries or through hired means.

You are an audit senior in APK Associates, certified firm which was appointed for the audit of Kigali Fresh Ltd for the year ended 31st December 2023. During your preliminary review of the client's records, you noticed that the company has not been remitting its taxes on the due dates and that even some taxes are not filed with the relevant tax authorities. You have been alerted by your audit manager that the tax matters may promulgate from normal errors or even from a fraud within a company. Also, the company has not been able to employ a full time accountant, uses a consultant who comes at the end of each month. Mostly the company relies on a full-time accounts assistant who does not maintain a full set of accounting records.

Required:

- a) With reference to the information provided in the above case study, **Discuss FIVE responsibilities of an auditor in relation to errors and frauds and for the entity's compliance to laws and regulations.** (5 Marks)
- b) i) **Define the term "audit risk".** (2 Marks)
ii) **Explain the THREE components of an audit risk.** (9 Marks)
- c) In relation to ISA 320 *Materiality in planning and performing an audit*, **Define the term materiality and state THREE reasons as to why an auditor should assess materiality in an audit.** (4 Marks)

(Total: 20 Marks)

QUESTION TWO

You are an audit senior in OPQ Associates a member firm of ICPAR and you have been assigned with the audit of PRT Rwanda Ltd which is an electronics company. PRT Rwanda Ltd has expanded steadily from its base in Kigali to various districts across Rwanda. Its financial year ends on 31st December 2023.

For the past years, the company has been ordering its electronic stocks in bulk, four times a year. However, if the items failed to meet market demands, then this resulted in significant inventory obsolescence. Due to this problem PRT Rwanda Ltd recently introduced just in time ordering system.

Ordering process

Each district has a purchasing manager who decides on the initial inventory levels of each store. However, this is not done in connection with the store's manager. These quantities are communicated to the central purchasing department in Kigali. The ordering personnel combines all orders from the districts and the sends them to the purchasing director to review and authorise.

As the goods are sold, it is the stores managers responsibility to re-order the goods through the purchasing manager. Although it's just in time, it can take up to four weeks to receive the goods in the stores.

Goods reception and invoicing

To speed up receipt of goods, goods are delivered from the supplier to individual stores direct. On receipt of the goods, the quantity received are checked by the sales assistant against delivery note. Then he will produce a goods received note which is sent to the head office in Kigali to match up with purchases invoices.

As purchases invoices are recorded, they are manually matched with goods delivery notes from the stores in districts. Once the invoice has been agreed, then it can be sent to the purchasing director for authorization and at this stage, the invoice is entered into the purchase ledger.

Required:

a) Identify and explain TWO deficiencies in the purchasing system of PRT Rwanda Ltd.
(2 Marks)

b) In reference to above scenario, Describe FOUR techniques for recording and assessment of control systems.
(12 Marks)

c) You are an audit senior in PWC one of the big four audit firms. You have been assigned a team of newly recruited audit assistants who doesn't understand what is to be done during an audit exercise. As an audit senior you are to prepare standard audit working papers to be used by your team during field work.

Required:

- i) **Define an audit program.** (2 Marks)
- ii) In line with the above, **Explain FOUR accounting control activities in relation to audit program for purchases.** (4 Marks)

(Total: 20 Marks)

QUESTION THREE

ISA 315, *Identifying and Assessing the Risks of Material Misstatement*, requires that the auditor must use assertions for classes of transactions and related disclosure in the statement of profit or loss and the statement of financial position. This will help an auditor to form a basis for the assessment risk of material misstatement and design performance of further audit procedures to obtain evidence about financial statement assertions.

Required:

- a) **Explain FOUR audit assertions used by an auditor during the audit of financial statements.** (8 Marks)
- b) i) **What is an audit report.** (2 Marks)
- ii) **Discuss FOUR effects of material misstatements on the financial statements on the audit reporting.** (10 Marks)

(Total: 20 Marks)

SECTION B

QUESTION FOUR

- a) You are an audit manager in BN one of the audit firms operating in Rwanda. During a meeting with the managing partner and other managers during the current year under audit, the managing partner informs you that, the firm has several clients for an audit with similar year-end dates. Some of the client's businesses have numerous underlying transactions. During the discussion, one of the audit managers emphasized on the use of audit sampling as a means of gathering audit evidence in order to meet clients' timelines.

Required:

- i) With reference to above scenario, **Explain FOUR circumstances in which sampling may be applicable as a means of gathering audit evidence.** (4 Marks)
- ii) In accordance with ISA 530, *Audit sampling*, **Explain Sampling risk and Tolerable error as key terms that are used in audit sampling.** (4 Marks)
- b) ISA 510, Initial engagement-opening balances provides guidance on when the financial are audited for the first time and when the prior period was audited by another auditor.

Required:

- i) **In line with the above ISA, Define the term "Opening balances".** (2 Marks)
- ii) **Explain THREE audit evidence required on opening balances by an auditor with regards to initial audit engagement and THREE audit evidence with regard to prior period audited by another auditor.** (6 Marks)
- c) ISA 710, *Comparative information* requires an auditor to determine whether the comparatives comply in all material respects with financial reporting framework applicable to the financial statements being audited.

Required:

- i) **Define the term "Comparative financial statements".** (1 mark)
- ii) **Explain THREE responsibilities of an auditor in relation to corresponding figure in comparative financial statements.** (3 Marks)

(Total: 20 Marks)

QUESTION FIVE

a) Xpro audit firm is an external auditor of Bantam Rwanda Ltd, a company that operates in oil and gas sector. Bantam Ltd is listed in Rwanda stock exchange (RSE). On completing the audit for the year ended 31st December 2023, the following issues were brought to the attention of the audit partner:

1. On 25th February 2024, Bantam Ltd agreed with workers' union to increase the pay of all its employees by 10% backdated to 1st July, 2023. No provision for this has been made in the financial statements.
2. One of the oil tankers was involved in an accident in Karongi, which led to serious oil spillage which could have a significant effect on future of the company. Further information will not be available until after the audit report has been signed.

Required:

Using the information provided in the above case study, **Explain the responsibilities of an auditor before and after the date of the report.** (14 Marks)

b) Public-sector auditors play an important role in ensuring that government organizations uphold appropriate standards of performance to achieve value for money. They are held accountable for performance and have a duty to execute their work with due care and diligence and due needs of public sector organizations.

Required:

b) i) With reference to above information, **Outline THREE matters to be taken into consideration by public sector auditors to achieve the objective of the audit.** (3 Marks)

ii) **Explain, THREE types of public sector audits.** (3 Marks)

(Total: 20 Marks)

QUESTION SIX

a) A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society. This is effected by having a commitment to creating a culture of honesty and ethical behaviour and active oversight by those charged with governance.

In addition, ISA 265, *Communicating deficiencies in internal controls to those charged with governance and management* requires the auditor to communicate significant deficiencies in the internal control to those charged with governance and management.

It is the management's responsibility to ensure that strong internal control systems are put in place for effective operations of the business. The management should not be asking the audit team to check his figures, this could be perceived as a self-review threat to the auditor's independence. This should be potentially flagged to the audit committee which is responsible to ensure all appropriate measure have been taken to ensure proper control and reporting framework is achieved by an organization.

Required:

- i) In relation to above case, Discuss the FOUR pillars of corporate governance. (8 Marks)**
- ii) List FOUR characteristics of a good corporate governance. (4 Marks)**
- b) It is important for a company to comply with the financial reporting standards, framework and disclosures to various regulatory entities. This necessitates most of the organizations to establish an audit committee.**

Required:

- i) Define the term “audit committee”. (2 Marks)**
- ii) Explain SIX specific roles of audit committee. (6 Marks)**

(Total: 20 Marks)

End of question paper

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