



**CERTIFIED PUBLIC ACCOUNTANT  
INTERMEDIATE LEVEL EXAMINATIONS**

**11.4: AUDITING**

**DATE: FRIDAY 01, FEBRUARY 2024**

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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 section B has three questions to choose two.**
- 4. Five questions in total are to be attempted.**
- 5. The question paper should not be taken out of the examination room.**

## SECTION A

### QUESTION ONE

You are part of the engagement team auditing the financial statements of Kamali&Sons Co for the year ended 31 December 2023, a company specialized in office supplies business. From the review of human resource reports, you realized that at the start of the financial year the company employed 7 office and warehouse managers, 45 warehouse and office staff. All staff were also given a 4% pay rise in the year, which was backdated since the start of the year. One of the office and warehouse managers left the company halfway through the year. In addition, five new members of warehouse and office staff joined the company halfway through the year.

The total expense for salaries and wages shown in the statement of profit and loss for Kamali&Sons Co is FRW 1,249,450,000. From the review of the above presented information by management, the audit manager urged you to use analytical procedures to identify the relationship between the presented information vis a vis the expected results on salaries and wages.

Your re-computation of total salaries and wages shows the expected amount of FRW 1,349,400,000 which marks a difference of 8% compared to the reported figure in the profit and loss.

#### Required:

- (a) In accordance with ISA 520 *Analytical Procedures*, discuss at least Four practical techniques that can be used to perform analytical procedures. (8 Marks)
- (b) Discuss the actions to be done by the auditors when the analytical procedures identify fluctuations or relationships that differ significantly with the expected results. (4 Marks)
- (c) Enumerate Three factors to consider when evaluating whether the analytical procedures expectation can be developed sufficiently precisely to identify a material misstatement. (3 Marks)
- (d) Going concern is viewed as continuing in business for the foreseeable future with neither the intention nor need to cease trading. Assets and liabilities are recorded on the basis that one can realize assets and discharge liabilities in the normal course of business.

#### Required:

In line with ISA 570 *Going concern*, Discuss the audit procedures to be performed by the auditor when events and conditions that may cast significant doubt on the entity's ability to continue as a going concern are identified. (5 Marks)

(Total: 20 Marks)

### QUESTION TWO

ZED Ltd is a company dealing with supply chain of finished good a and was incorporated in 2017. During the company's board of directors' meeting, they argued on appointing the external auditors yet the company has internal audit department staffed with qualified personnel. Further, management is looking at cost to be incurred on external auditors and is thinking of using the internal resources instead of hearing.

The following points come to the attention of management and discussed in both senior management meeting and board meeting:

- The company's profit has been declining mainly due to intensive price competition from several competitors. The managing director hopes that profits would improve in 2021 as significant amount of the company's long-term debt is payable by the year 2020. ZED Ltd is currently involved in discussion with the bank on refinancing.
- In late 2019, a significant theft took place at the company inventory. Security was not sufficiently strict because it was believed that there was only low risk of these products being stolen given their nature as high-volume low value products.

#### Required:

- (a) State Five inherent limitations of an audit that makes it impossible to provide 'absolute' assurance. (5 Marks)
  - (b) Describe Five roles you would expect the internal audit staff to perform in ZED Ltd. (10 Marks)
  - (c) Enumerate Five main points of distinction between statutory audit and non-statutory audit. (5 Marks)
- (Total: 20 Marks)

### QUESTION THREE

International Auditing standards 230 Audit Documentation deals with the auditor's responsibility to prepare audit documentation for an audit of financial statements. Standard also requires auditors to document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussion took place,

#### Required:

- (a) Briefly discuss four (4) Importance of the use of analytical review procedures at the review stage of the audit. (6 Marks)
- (b) State four (4) benefits of documenting audit work. (4 Marks)
- (c) Many audit firms use standardized working papers. List three advantages and three disadvantages of audit firms using standardized working papers to documents their work. (6 Marks)
- (d) Briefly explain Two (2) main objectives of an audit peer review. (4 Marks)

(Total: 20 Marks)

## **SECTION B**

### **QUESTION FOUR**

ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* states the auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. The auditor shall then express an unmodified opinion when he/she concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. Such an opinion should be expressed in audit report and the auditor's report shall be in writing.

#### **Required:**

- (a) In accordance with ISA 700, **Explain at least ten key elements of an audit report.** (10 Marks)
- (b) The auditor collects any uncorrected misstatements that have been discovered during the audit process. Where the aggregate of these misstatements is material, the opinion must be modified but there are different types of modification depending on the type and severity of the problem. The auditor must also consider the possible effect of any areas where he/she has not been able to obtain sufficient appropriate audit evidence, as this will also give rise to a modified opinion where the problem is sufficiently severe.

#### **Required:**

- (i) **Explain Three types of modified opinions that can result from auditor's judgement on pervasiveness of the effect of uncorrected misstatement on financial statements.** (6 Marks)
- (ii) **Discuss the circumstances in which the auditor may need to modify the opinion.** (4 Marks)
- (Total: 20 Marks)**

### **QUESTION FIVE**

You are a senior auditor at Mpankani Ltd, your company has been subcontracted by the Office of Auditor General (OAG) to carry out the audit of one of the reputable hospitals in the country. During the audit planning and risk assessment stages, the audit manager assessed the risk of material misstatement to be high and hence established materiality for the hospital's financial statements as a whole by applying a percentage to a chosen benchmark as and he also calculated the performance material accordingly.

During the audit, the audit manager became aware of critical information about the embezzlement done by some staff over stored medicines. From discussion with the audit manager on the subject matter, he decided to revise the materiality as well as the audit approach that were preliminary adopted after risk assessment procedures. He then asked you to work on materiality documentation in accordance to the requirements of ISA 320 "*Materiality in the Identification and Evaluation of Misstatements*".

#### **Required:**

- (a) **Define the term "Performance materiality".** (1 Mark)
- (b) **Discuss the factors that may affect the identification of an appropriate benchmark by the auditor while determining materiality for the financial statements as a whole.** (5 Marks)
- (c) **In line with the above case study, enumerate at least Four elements that you will document on materiality as requested by the audit manager.** (4 Marks)
- (d) **Differentiate risk-based audit from top-down audit approach and explain at least Three advantages on each once adopted by the auditor in the audit engagement.** (10 Marks)
- (Total: 20 Marks)**

## QUESTION SIX

NMC Group Ltd hired an independent consultancy for review of control deficiencies and update of the company's process and procedures manual with the aim of guiding the staff on the execution of their daily works and well as establishing the workflow lines between the departments and the external stakeholders. The following procedures were documented on company's sales system.

1. The orders from clients shall be taken by the sales agents in the commercial department who shall also review and document the confirmed orders after checking the client's credit limit.
2. The sales agents shall then process the order and liaise with the store manager and issue the goods dispatch note which must be counter-signed by the sales agent and the client. The sales agent shall then ensure that the orders file is updated accordingly.
3. The signed goods dispatch note shall be shared by the sales agent to the finance department for issue of the relevant invoice.
4. An accountant shall record the relevant invoice basing on the codes of the goods and to the concerned accounts in the company's accounting system.
5. The invoice shall be officially sent to the client by the finance department and ensure that the payment is received not later than 30 days from the date of the invoice.

You're a senior auditor and your company has won a tender to audit NMC group Ltd, and the audit team leader asked you to review the effectiveness of internal controls captured on sales in the company process and procedures manual.

### Required:

In line with the above case study, **design the audit program for the test of controls that you will carry out on the audit of sales of NMC group Ltd.** (20 Marks)

**Hint:** Use a table to show the concerned assertion, control objective, a control, and a test of control to be performed. (Total: 20 Marks)

**End of question paper**

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