CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATIONS

I1.4: AUDITING

DATE: FRIDAY 31, MAY 2024

MARKING GUIDE & MODEL ANSWERS

SECTION A

QUESTION ONE

Marking guide

Question	Description	Total Marks
a	Award 2 marks for each correctly described step in the methodology of audit. NOTE: Steps must be correctly sequenced to be correct. If steps are not properly sequenced, award 1 mark per un-sequenced step.	**14**
b	Award 2 marks for a correct definition of assurance engagement	**2**
c	Award 2 marks for a correct definition or explanation of each of the levels of assurance: Reasonable assurance = 2 marks Absolute assurance = 2 marks	**4**
	Total Marks	**20**

Model answers

a) **The audit methodology to be exercised for the audit of M&C financial statements shall include the following elements:**

i) Determine the scope and the audit approach: Legislation and the auditing standards lay down the scope for statutory audits. An auditor should prepare a plan for his audit.

ii) Ascertain the system and controls: Discuss the accounting system and the flow of documents with all the relevant personnel in the company. Document all your notes. Some auditors do flow charts, narrative notes and/ or internal control questionnaires. Get to know the client's business. Confirm that you have recorded the system accurately by carrying out walkthrough tests.

iii) Assess the system and internal controls: Evaluate the system as it is, to weigh up its reliability and draw up a plan to test its effectiveness. At this stage you could draw up a letter to management recommending any improvements you consider from your findings. In addition, what you have learned here may influence the type of further audit testing you may carry out later on.

iv) Test the system and internal controls: Above, you evaluated the controls that are in place. Now you need to test that they were effective, Compliance tests will cover many more transactions than the walkthrough tests. You need to carry out a representative sample through the accounting period. If you can establish that the controls are indeed effective, you can reduce the amount of detailed testing later on. However, if the controls turn out to be ineffective, then more substantive tests will need to be carried out.

v) Test the financial statements: This section covers the substantive testing which has been described earlier. You are effectively trying to stand over the figures in the financial statements. Substantive tests are audit procedures performed to detect material misstatements. Remember, if you think that any error you might find in a class of transactions will not be significant, then there is little point carrying out the substantive test.

vi) Review the financial statements: After all the testing has been done and the evidence gathered, you should review the accounts as to their overall reliability making a critical analysis of the content and presentation.

vii) Express an opinion: You need to evaluate all the evidence you have gathered and express an opinion on a set of accounts by way of a written audit report. You may, in addition, write a management letter which can set out improvements you recommend or to place on record specific points in connection with the audit.

b) In accordance with the International Standards on Auditing (ISA), define a term "assurance engagement".

Assurance engagement is defined as one in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against a suitable criteria.

c) Differentiate between reasonable and absolute levels of assurance

With **Reasonable level of assurance**, the subject matter materially conforms to criteria; i.e., accounts give a true and fair view having regard to the accounting standards and law, such as carried out in an audit. With it there is still a remote likelihood that the material misstatements. Whereas with **Absolute assurance** simply means that there is no possibility of material misstatement, this can never be given as there are inherent limitations of an audit that affect the auditor's ability to detect material misstatements in a set of financial statements

QUESTION TWO

Marking guide

Question	Description	Total Marks
Qn 2.a. i)	Award 1 Mark per well stated valid point Note: only four points were required to be stated Maximum of 4 marks i) Accountability ii) Fairness iii) Transparency iv) Responsibility	**4**
Qn 2.a. ii)	Award 1 Mark per well stated point Note: only four points were required to be stated Maximum of 4 marks(4 points * 1 mark = 4 marks) Consider other answers not in the model answer	**4**
Qn 2 b)	Award 2 Marks per well explained duty of auditor Award 1 Mark only for stated duty without explanation Note: only three duties were required Provide an Audit Report Make proper enquiry: Compliance with auditing standards Reporting frauds Adhere Principles of Auditing: Maximum of 6 Marks (3 duties * 2 marks each) Award 2 Marks per well explained right of auditor Award 1 Mark only for stated right of auditor without explanation Note: only three rights of auditor were required Maximum of 6 Marks(3 rights * 2 marks each) Rights of auditor Access to records Information and explanations Attendance at/ notices of general meetings Right to be heard at general meetings Rights in relation to written resolutions Maximum of 12 marks for this question	**12**
	Total Marks	**20**

Model answers

a) i) State FOUR fundamental pillars of corporate governance.

- Accountability: Accountability embraces ownership of strategy and task required to attain organisational goals. This also means owing reward and risk in clear context of predetermined value proposition.
- Fairness: Fairness means "equal treatment of all stakeholders". Establishing effective communication mechanism is important in ensuring just and timely protection of resources.
- Transparency: Transparency "means having nothing to hide" that allows its processes and transactions observable to outsiders. It also makes necessary disclosures, informs all stakeholders affected about its decisions and how they are likely to be affected by those decisions.
- Responsibility: Those charged with governance are given authority to act on behalf of the entity. They should therefore accept full responsibility for the powers that is given to them and the authority that it exercises.

a. ii) Highlight FOUR ways in which an auditor might reduce their liability to third parties.

1. Limit access to his work or reports where possible
2. Include a disclaimer of liability clause in the relevant document or report
3. When submitting un-audited accounts or other un-audited financial statements, the auditor should ensure that the purpose for which the statements or reports have been prepared and it is properly explained on the face of the report
4. The auditor should take a profession indemnity insurance cover
5. Engaging an expert where necessary
6. Exercising due care during his work

b. Explain to NIREMBERE Fotune THREE duties and THREE rights of an auditor.

<u>Auditor's Duties:</u>

- Compliance with legislation: Whether the financial statements have been prepared in accordance with the relevant legislation;
- Truth and fairness of accounts: Whether the statement of financial position shows a true and fair view of the company's affairs at the end of the period and the statement of profit or loss and other comprehensive income (and statement of cash flows) show a true and fair view of the results for that period;
- Adequate accounting records and returns: Whether adequate accounting records have been kept and returns adequate for the audit received from branches not visited by the auditor;
- Agreement of accounts to records: Whether the accounts are in agreement with the accounting records and returns;
- Consistency of other information: Whether the information in the directors' report is consistent with the financial statements;
- Directors' benefits: Whether disclosure of directors' benefits has been made in accordance with the Law Governing Companies.

<u>Rights of auditor:</u>

The auditors must have certain rights to enable them to carry out their duties effectively:

- Access to records: A right of access at all times to the books, accounts and vouchers of the company (in whatever form they are held);

- Information and explanations: A right to require from the company's officers such information and explanations as they think necessary for the performance of their duties as auditors;
- Attendance at/notices of general meetings: A right to attend any general meetings of the company and to receive all notices of and other communications relating to such meetings which any member of the company is entitled to receive;
- Right to be heard at general meetings: A right to be heard at general meetings which they attend on any part of the business that concerns them as auditors;
- Right to an appropriate audit fee: Once they have performed their work in accordance with the engagement letter, auditors are entitled to an appropriate audit fee;
- Rights in relation to written resolutions: A right to receive a copy of any written resolution proposed.

QUESTION THREE

Marking guide:

Question	**Description**	**Total Marks**
Qn 3a) (i)	Award 1 Mark each correct control Note: only four points were required Maximum of 4 marks means (4 points* 1 mark each = 4 marks) Consider alternative answers provided by candidates but not in the model answers	**4**
Qn 3a) (ii)	Award 1 Mark each correct control Note: only four points were required Maximum of 4 marks means (4 points* 1 mark each = 4 marks) Consider alternative answers provided by candidates but not in the model answers	**4**
Qn 3 b)	Award 1 Mark per every type of information to be included in working papers Note: only six types of information were required Maximum of 6 marks means (6 answers *1 mark = 6 marks) Consider alternative answers provided by candidates but not in the model answers	**6**
Qn 3 c)	Award 2 Marks per well explained procedure **Note:** only six procedures were required Maximum of 6 marks means (4 procedures * 2 marks each) 1. Inspection of tangible assets 2. Inspection of documents and records 3. Observation 4. Inquiry and confirmation 5. Recalculation and Re-Performance 6. Audit automation tools	**6**

	7. Analytical procedures	
	Total Marks	**20**

Model answers

a) Describe FOUR controls an entity should establish to each of the following the following areas:

i. Payroll.

Ensure that:

i. Segregation of duties between HR and payroll functions.
ii. Personnel files held for all employees.
iii. Authorisation procedures for hiring, terminating, time worked, wage rates, overtime, benefits etc.
iv. Any changes in employment status of employees (eg maternity, special leave) informed to HR department.
v. Use of time clocks to record time worked.
vi. Clock cards approved by supervisor.
vii. Employee numbers assigned to each employee in the payroll master file. Only employees with valid employee numbers are paid.
viii. Payroll budgets in place and reviewed by management.
ix. Pre-numbered clock cards in use.
x. Regular reconciliations carried out of payroll records and employee costs recorded in the general ledger.
xi. Comparison of cheques and bank transfer list with payroll to ensure all employees paid have been recorded via payroll.
xii. Preparation and authorisation of cheques and bank transfer lists.
xiii. Payroll budgets in place and reviewed by management.
xiv. Agreement of gross earnings and total tax deducted with taxation returns.
xv. Changes to master payroll file verified through 'before and after' reports.
xvi. All starters, leavers, changes to salaries and deductions are reported promptly to payroll department and changes are updated in the payroll master file promptly.
xvii. Independent approval and review of accounts charged to payroll.

ii. Inventory.

Ensure that:

i. Pre-numbered documentation such as GDNs and GRNs in use.
ii. Reconciliations of inventory records with general ledger.
iii. Separate responsibilities (segregation of duties) for maintenance of records and custodianship.
iv. Physical safeguards in place to ensure inventory is not stolen.
v. Inventory counted regularly.

vi. Procedures in place to include inventory held at third parties and exclude inventory held on consignment for third parties.
vii. Reconciliations of accounting records with physical inventory.
viii. Periodic or annual comparison of inventory with amounts shown in continuous (perpetual) inventory records.
ix. Standard costs reviewed by management.
x. Review of cost accumulation and variance reports.
xi. Inventory managers review inventory regularly to identify slow-moving, obsolete and excess inventory.
xii. All despatch documents processed daily to record the despatch of finished goods.
xiii. All goods inward reports processed daily to record the receipt of inventory.
xiv. Orders for materials and production data forms used to process goods through manufacturing.

b) Identify SIX types of information that the new auditors should include in the audit working papers.

i. Information concerning the legal and organizational structure of the entity
ii. Extracts of copies of important legal documents, agreements and minutes
iii. Information concerning the industry, economic environment and legislative environment within which the entity operates
iv. Evidences of planning process including audit programmes and any change thereto
v. Evidence of auditor's understanding of the accounting and internal control system
vi. Evidence of inherent and control risk assessments and any revisions thereof.
vii. Evidences od auditor's consideration of the work of internal auditing and conclusion reached
viii. Analyses of transactions and balances
ix. Analysis of significant ratios and trends
x. A record of the nature, timing and extend of audit procedures performed and results of such procedures
xi. An indication as to who performed the audit procedures performed and when they were performed
xii. Letters of representation received from the entity
xiii. Conclusions reached by the auditor concerning significant aspects of the audit
xiv. Copies of financial statements and auditor's report. Financial statements of the previous years are also necessary
xv. Copies of bank mandates and specimen signatures

c) State SIX procedures used by auditors to obtain sufficient appropriate audit evidence.

i. Inspection of tangible assets: Inspection confirms existence and valuation and gives evidence of completion. It does not however confirm rights and obligations.
ii. Inspection of documents and records: Confirmation of documentation confirms existence of an asset or that a transaction has occurred. Confirmation that items are in

the books shows completeness. Also helps testing cut-off. It provides evidence of valuation, measurement, rights and obligations and presentation and disclosure.

iii. Observation: This procedure is of limited use in that it only confirms that a procedure took place when it was observed.

iv. Inquiry and confirmation: Information sought from client or external sources. The strength of the evidence depends on knowledge and integrity of the source of the information.

v. Recalculation and Re-Performance: Checking calculations of client records.

vi. Audit automation tools: Such as computer assisted auditing techniques.

vii. Analytical procedures: Auditor have to perform analytical review as way of gathering audit evidences for some balances

SECTION B

QUESTION FOUR

Marking Guide

Question	**Description**	**Total Marks**
a	Award 1 mark for each correct factor with a maximum of 4 factors: Consider any other correct factors offered by candidates.	**4**
b	Award 2 marks for any correct definition of accounting estimates.	**2**
c	Award 2 marks for each correctly explained audit procedure that the auditor is required to perform in response to the assessed risk accounting estimate. Maximum of 3 points. Award 1 mark if the answer is simply listed without any brief explanation: Consider any other correct factors offered by candidates.	**6**
d (i)	Award 1 mark each correctly identified type of computer-assisted audit techniques and award 1 mark for the brief explanation. Audit software = 1 mark for the correct type and 1 mark for any correct brief explanation (2 marks) Test data = 1 mark for the correct type and 1 mark for any correct brief explanation (2 marks)	**4**
d (ii)	Award 1 mark for each correctly described advantage. Maximum of 4 marks.	**4**

	Consider any other correct factors offered by candidates.	
	Total Marks	**20**

Model Answers

a) FOUR factors you would consider in evaluating the appropriateness of the expert's work as audit evidence.

1. Source data used,
2. Assumptions and methods used and their consistency with prior periods,
3. When the expert carried out the work,
4. Results of the expert's work in the light of the auditor's overall knowledge of the business and of the results of other audit procedures.
5. When considering whether the expert has used source data which is appropriate in the circumstances, the auditor would consider the following procedures:
6. Making inquiries regarding any procedures undertaken by the expert to establish whether the source data is relevant and reliable and
7. Reviewing or testing the data used by the expert.

b) Accounting estimate: It is an approximation of a monetary amount in the absence of a precise means of measurement.

c) THREE Audit procedures that the auditor is required to perform in response to the assessed risk accounting estimate:

1. Determine whether events occurring up to the date of the auditor's report provide audit evidence regarding the accounting estimate.
2. Test how management made the accounting estimate and the data on which it is based.
3. Test the operating effectiveness of controls over how the accounting estimate was made.
4. Develop a point estimate or a range to evaluate management's point estimate.
5. Whether the method, and significant data and significant assumptions, are appropriate in the context of the applicable financial reporting framework.
6. Whether significant data is relevant and reliable.
7. Whether management has appropriately understood or interpreted significant data, including with respect to contractual terms.
8. Whether the calculations are mathematically accurate and appropriately applied.
9. Management has taken appropriate steps to understand and address the estimation uncertainty, and develop a point estimate that meets the measurement objective.
10. Whether management's judgments about changes from previous periods in the method or the significant data or significant assumptions, are appropriate.

d) In relation to computer-assisted audit techniques:

i. **Identify and briefly describe TWO types of computer-assisted audit techniques.**

There are two types of CAATs. Audit software and Test data.

Audit software: This is used to process data from a client's accounting system. It is used to check that the figures within the accounting system are correct.

Test data: This is where sample data is entered into an entity's computer system and the results are compared with predetermined results to determine whether controls are operating effectively

Embedded test facilities

Integrated Test Facilities or a System Control and Review File ('SCARF') are

permanent audit modules within the accounting system. During the accounting period

certain transactions are also recorded in these files for later examination by the auditor.

For example, large journal entries, large returns and so on

ii. **Enumerate FOUR advantages of using computer-assisted audit techniques.**

1. They assist the auditor in obtaining more audit evidence.
2. Large samples can be tested quickly and accurately.
3. CAATs test the original data and not just the printout so the validity of the test is more defined.
4. In many instances they are cost effective.

QUESTION FIVE

Marking Guide

Question	Description	Total Marks

a	Award marks as follows: 1 mark if a candidate correctly identifies that auditors are appointed by 'shareholders by ordinary resolution' 1 mark if a candidates correctly identifies that the first auditor of the company may be appointed by the Board of Directors 1 mark if a candidates correctly identifies that the Registrar General has the powers to direct the company to appoint its auditor within thirty (30) days 1 mark if a candidates correctly identifies that the salary and other expenses for the auditor are determined by the general meeting of shareholders or the Board of Directors	**4**
b	Award 2 marks for each correct factor provided by candidates Maximum of 5 answers (5 points * 2 Marks each) Other correct factors provided by candidates not in the model answers are acceptable	**10**
c (i)	**Key Audit matters** Award 2 marks for any correct explanation of the content of this section of the audit report	**2**
c (ii)	**Basis for Opinion** Award 2 marks for any correct explanation of the content of this section of the audit report	**2**
c (iii)	**Going Concern** Award 2 marks for any correct explanation of the content of this section of the audit report	**2**
Total Marks		**20**

Model Answers

a) Explain how auditors are appointed in accordance with the Law Governing Companies in Rwanda.

The appointment of a particular auditor is authorised by the shareholders by ordinary resolution.

The first auditor of the company may be appointed by the Board of Directors without the approval required above, and auditors so appointed, unless removed, hold office until the conclusion of the company's first general meeting or until twenty-eight (28) days after the date that the company’s annual accounts are sent to shareholders, whichever is the sooner.

In case no auditor is appointed in accordance with Paragraph 2 above, the Registrar General has the powers to direct the company to appoint its auditor within thirty (30) days.

The salary and other expenses for the auditor are determined by the general meeting of shareholders or the Board of Directors.

b) Discuss FIVE factors that the auditor must consider in order to form an audit opinion.

In order to form the opinion, the auditor needs to conclude whether reasonable assurance has been obtained that the financial statements are free from material misstatement. The auditor's conclusion needs to consider the following:

(a) Whether sufficient appropriate audit evidence has been obtained (ISA 330)

(b) Whether uncorrected misstatements are material (ISA 450)

(c) Qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgements – this includes considering whether the accounting policies disclosed are relevant to the entity, and whether they have been presented in an understandable manner

(d) Whether the financial statements adequately disclose the significant accounting policies selected and applied

(e) Whether the accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate

(f) Whether accounting estimates made by management are reasonable

(g) Whether the information in the financial statements is relevant, reliable, comparable and understandable

(h) Whether the financial statements provide adequate disclosures to allow users to understand the effect of material transactions and events on the information presented in the financial statements

(i) Whether the terminology used in the financial statements is appropriate

(j) The overall presentation, structure and content of the financial statements

(k) Whether the financial statements represent the underlying transactions and events so as to achieve fair presentation

(l) Whether the financial statements adequately refer to or describe the applicable financial reporting framework

c) With reference to an auditor's report, briefly describe the matters that are included in the following Paragraphs:

i. Key Audit matters

For the audit of listed entities, or where required by law or regulation, the auditor should include a 'Key audit matters' section. This section describes the matters that, in the auditor's professional judgement, are most significant to the audit.

ii. Basis for Opinion

The basis for opinion paragraph must state that the audit was conducted in accordance with the ISAs, and refer to the 'Auditor's responsibilities for the audit of the financial statements' describes the auditor's responsibilities under the ISAs.

The auditor must also state that they are independent of the audited entity, in accordance with the relevant ethical requirements relating to the audit.

Finally, the auditor must state that they believe the audit evidence obtained is sufficient and appropriate to provide a basis for the audit opinion

iii. Going concern

Where the auditor considers a material uncertainty related to going concern exists, this should be described in a separate section headed 'Material uncertainty related to going concern'.

QUESTION SIX

Marking guide

Question	Description	Total Marks
a	Award 2 marks for each correctly explained responsibility of the Auditor General. Award 1 mark if the answer is not appropriately explained	6

b	Award 2 marks if the candidate correctly identifies that the Public Accounts Committee (PAC) is a sub-committee in the Parliament in charge of public accounts. Award 2 marks for a correctly explained role	**4**
c	Award 1 mark for each correctly stated objective of the International Organisation of Supreme Audit Institutions (INTOSAI)	**4**
d	Award 1 mark for each correct type of entity provided by candidate Note: only 3 types were required Maximum of 3 marks means (3 points* 1 Marks each) Other correct duties provided by candidate not in the model answers are acceptable	**3**
e	Award 1 mark for each correctly stated type of public sector audits Note: only 3 types were required Maximum of 3 marks means (3 points* 1 Marks each)	**3**
Total Marks		**20**

Model Answers

a) Explain THREE responsibilities of the Auditor General.

1. Auditing objectively whether revenues and expenditures of the State as well as local government organs, public enterprises, privatised state enterprises, joint enterprises in which the State is participating and government projects were in accordance with the laws and regulations in force and in conformity with the prescribed justifications;
2. Auditing the finances of the institutions referred to above and particularly verifying whether the expenditures were in conformity with the law and sound management and whether they were necessary;
3. Carrying out all audits of accounts, management, portfolio and strategies which were applied in institutions mentioned above.

b) Discuss the meaning and main role of Public Accounts Committee (PAC) in Rwanda.

A public accounts committee (PAC) is a committee within a legislature whose role is to study public audits, invite ministers, permanent secretaries or other ministry officials to the committee for questioning, and report on their findings subsequent to a government budget audit.

The Public Accounts Committee is responsible for issues relating to:

1. Analysis of the report of the Auditor General of State Finance with respect to T he use of State finance and property for the preceding year and preparation of draft recommendations for the Plenary Assembly within six (6) months of the submission of such a report to the Plenary Assembly;
2. Follow-up on the implementation of recommendations adopted by the Plenary Assembly during the analysis of the report of the Auditor General of State Finance;
3. Consideration, analysis and tabling of the report on general accounts of institutions which use national budget and property;
4. Produce a report on the use of national budget;
5. Consideration, analysis and tabling of a report to Plenary sitting of the report on accounts of the institution which use national budget a patrimony;
6. Performance of other duties related to the use of State finance and property within public institutions and government projects;
7. Follow-up on loan and grant agreements falling within its responsibilities between Rwanda and foreign countries or international organisations;
8. Follow-up on the application of laws relating to its responsibilities.

(c) State FOUR objective of the International Organisation of Supreme Audit Institutions (INTOSAI).

1. Professional Standards – to establish effective frameworks for the adoption of professional standards that correspond to the demands and expectations of member institutions
2. Capacity Building – to focus on institutional capacity-building activities of direct relevance to the majority of INTOSAI’s members
3. Knowledge Sharing & Knowledge Services – to build on the essential features of openness, sharing and cooperation.

4. Model International Organisation – to promote the organization and governance of INTOSAI.

(d) List THREE types of entities that the Office of the Auditor General may audit.

i. Central Government (Mainly Ministries)
ii. Local Government Organs
iii. Public Enterprises
iv. Privatised State Enterprises
v. Joint Enterprises in which the State is participating and government projects

(e) State THREE main types of public sector audits.

1. Financial Audit: This audit aims to ensure that the financial statements of audited entities present a fair view of their financial activities during the reporting period and their Statement of Financial Position (or balance sheet) at its close;
2. Compliance Audit: This audit attempts to validate that transactions have been undertaken in compliance with appropriate legislation and regulation, and
3. Performance Audit: This audit looks at Value for Money or the effective, efficient, and economical usage of public resources (this is sometimes called the "3Es" audit.

END OF MARKING GUIDE AND MODEL ANSWERS