



CERTIFIED ACCOUNTING TECHNICIAN
STAGE 3 EXAMINATIONS
S3.4 AUDIT AND ASSURANCE
DATE: TUESDAY 25, APRIL 2023
MARKING GUIDE AND MODEL ANSWERS

SECTION A

Marking guide

Question	Answer
1	D
2	C
3	B
4	C
5	B
6	D
7	C
8	C
9	A
10	D

Section A-Marks allocation

Marks

2 marks for each correct answer

2

Total marks for this section

20

Model Answers

QUESTION ONE

The Correct Answer is D

The audit firm can get information in the all source described in the audit question. In the case the audit firm failed to ask the information in one of the sources mentioned in the case study the wrong decision for accepting the client may be taken.

The answers A, B and C are not correct because in the case the audit firm failed to ask the information one of the sources mentioned in the case study the wrong decision for accepting the client may be taken.

QUESTION TWO

The Correct Answer is C

Independence is an important issue- a natural consequence of fundamental principles of integrity and objectivity but not stated as fundamental principle professional ethics itself.

The Points A, B and D are not correct because these are fundamental principles of professional ethics.

QUESTION THREE

The Correct Answer is B

Because if the audit firm has been auditing HTNK Ltd for the period of 15 years this leads to familiarity threat not self-interest threat.

The points A, C and D are not correct because in these circumstances, the auditor has the self-interest threats and his judgement may be impaired (lack of independence)

QUESTION FOUR

The Correct Answer is C

Point (ii) and (iv) are correct because they explain the meaning of performance materiality.

The auditors use performance materiality level to reduce the risk that the aggregate of uncorrected and undetected misstatements exceeds materiality of the financial statements, again performance materiality is affected by the auditor's understanding of the entity and the nature and extend of misstatements identified in prior year audits.

A, B, and D are not the correct answers because those answers are not explaining the meaning of performance materiality.

QUESTION FIVE

The Correct Answer is B

In the completion procedures, the auditor shall consider whether the aggregate of uncorrected misstatements in the financial is material. This means that at the end of the audit must report only uncorrected material misstatements without including immaterial and corrected misstatements in the audit report.

Answers A and D are not correct because they are saying that the audit must report both immaterial and corrected misstatement in the audit reports.

Answer C is not correct because the audit can not report to the board of directors before reporting to the management

QUESTION SIX

The Correct Answer is D

Ask directors to correct the material misstatements and explaining to them it is material to ML Ltd financial statements. In the case directors failed to correct the identified misstatements you can take the other step

Answers A, B and C are not correct because those are the other steps you can take in case directors failed to make adjustments of the identified misstatements.

QUESTION SEVEN

The Correct Answer is C

Confirm whether there are qualified drivers using the motor vehicles in order avoid them to be depreciated before the expected useful life: This not the audit procedures to be performed while assessing completeness of the reported balances of motor vehicles, this the test you can perform to assess the management of the acquired motor vehicles

Confirm whether the Company are using the motor vehicles for intended purpose: this is not the audit procedures to perform while assessing completeness of the reported balances of the motor vehicles, this audit procedures supposed to be performed while assessing value for money of the motor vehicles.

Answer A, B and D are not correct because audit procedures in Answer and C are the audit procedures to assess completeness and existence of the reported motor vehicles.

QUESTION EIGHT

The Correct Answer is C

The auditor reviews procedures for identifying damaged, obsolete and slow-moving items of MM Ltd

The answers A, B and D are not correct because the audit does not have responsibility to organize the stock count of MM Ltd or to instruct management to recount the stock. Only the auditor has responsibility to assess whether there is no obsolete, damaged and m nonmoving stock items.

QUESTION NINE

The Correct Answer is A

Send the enquiry letter to the lawyer of WB Ltd to obtain the status of the legal claims, the confirmation gets from the third party more reliable audit evidence to the auditor

Answers B, C and D are not correct because B and C contains internal information that can not provide all needed information to the auditor, better to send the confirmation letter to third party and compare the confirmed information with the information provided by management and take decision.

QUESTION 10

The Correct Answer is D

The source and quality of audit evidence available is the factor that can affect the judgement of the auditor in collecting the audit evidences.

Answers A, B and C are not correct because the facts in points A, B and C cannot affect auditor's judgement in collecting the audit evidences.

SECTION B

QUESTION 11

Marking guide:

Question	Description	Total Marks
Qn 11 a)	Award 1 Mark per well explained purpose of internal control system Award 1 Mark purpose of internal control system not well explained Note: only four purposes were required Maximum of 4 marks means (4 points* 1 Marks each) Other correct purpose provided by candidate not in the model answers are acceptable.	4
Qn 11 b)	Award 1 Mark per every internal control procedure Note: only 6 internal control procedures were required Maximum of 6 marks means (6 points* 1 Mark each) Other correct internal control procedure provided by candidate not in the model answers are acceptable.	6
	Total Marks	10

Model answers

a) The purpose of internal control system in an organization

- i) In an organization, an internal control system enhances the efficient and orderly running of activities and operations to satisfy the needs of the stakeholders
- ii) An internal control system assists in the prevention and detection of fraud and error.
- iii) It enhances accuracy and completeness of the accounting records
- iv) Ensure timely preparation of reliable financial information
- v) It ensures adherence to management policies. These policies provide a good framework within which the internal control system operates
- vi) Internal control helps in the safeguarding of company's assets. Using physical controls such as lock, key and documentation.

b) Three internal control procedures you would recommend NF Ltd in the following areas:

For the receipts of goods:

- All goods should be checked for quality and quantity. The goods received notes should be raised for all goods accepted
- Goods received notes should be checked against purchase orders and procedures should exist to notify the suppliers of the over or under deliveries
- Goods inwards centres should be identified to deal with the receipt of all goods received by the company
- Proper documentation register indicating all goods received, name of supplier, date of receiving of the goods and the name of staff who received the goods

Invoicing and returns:

- Purchase invoices received should be stamped and given a unique serial number
- The invoices should be signed and approved for payment by a responsible official
- The purchase invoices should be matched with the goods received notes
- The invoices should be against the order and the goods received notes and casts
- The record of goods returned should be kept and checked to the credit notes received from the suppliers
- Batch controls should be maintained over the posting of invoices to the purchase day book, nominal ledger and purchase ledger

QUESTION 12

Marking guide:

Question	Description	Total Marks
Qn 12	Award 0.5 Marks per every stated deficiency, 1 mark for explanation and 1 mark for control recommendation Note: only 4 points were required to be explained and recommended Maximum of 10 marks means (4 points* 2,5 Marks each)	10
	Total Marks	10

Model answers

	Control deficiency	Explanation	Control to address the identified deficiency(recommendation)
1	The main store is located in Kigali city, it is difficult for branches to order the goods from head quarter in the case branches receive order from the customers.	The main store is located in Kigali city and its difficult for store keepers of the branches to order the goods from head quarter in the case they received orders from customers, this long process of ordering goods affect negatively service delivery.	Zirakamwa Ltd management must establish the stock at every branch in order to deliver the goods to customers within reasonable time, this can reduce transport costs incurred in delivering the goods to the branches.
2	Delivering the ordered goods made within 5 days (delay in delivery)	There is a delay in delivering the ordered goods, because most of the time the clients ordered the goods while they have shortage of stock, so delivering the ordered goods with delay can reduce the number of customers.	Zirakamwa Ltd management must reduce the time of delivering the goods to the clients, this will be achieved by establish the stock at every branch. And allow inter branch transfers to speed up the process in delivery.
3	Making orders on phone calls.	Making orders on phone calls is not goods because the store keeper at head quarter can capture the quantity wrongly and this resulted by delivering the quantity or quality differ from what ordered by customers. This can affect the reputation of the company.	Zirakamwa Ltd management establish the strong system of communication by sending the purchase orders from customers via emails. This will help the store keeper at head quarter to deliver right quantity or quality.
4	Driver is the one supposed to inform the branch the delivered quantity.	The driver is the one supposed to inform the branch the quantity of delivered goods; this is not good because some goods can be stolen by the driver	The store keeper at head quarter must sign a delivery note and agree with the driver on the delivered quantities. Then the delivery note must be sent to the branch, the branch management must confirm whether the

	Control deficiency	Explanation	Control to address the identified deficiency(recommendation)
		and report less quantities to the branch.	delivered goods agreed with quantities on delivery notes.
5	Purchase orders were submitted to head quarter on monthly basis for review and approval while the deliveries were made within 5 days after receiving orders on phone calls	Submitting the purchase orders after delivering of goods is a weakness because the store keeper at head quarter can deliver the goods differ from those included in purchase orders. This can cause conflict between Zirakamwa Ltd and its customers.	Branch representative must submit purchase orders to the head quarter before deliveries. This will help the head quarter to reconcile delivered quantities versus the ordered quantities.
6	Store keeper at head quarter review and approval the purchase orders is the one who process the invoices to the clients for payments.	The purchase orders were review and approved by only one person, any error or fraud can be easily made and it is difficult to be detected.	The staff in charge of review of purchase orders must differ with staff supposed to approval purchase orders. Zirakamwa Ltd is advised to hire the staff in charge of approval of the purchase orders.
7	The reports of sold goods are prepare by the store keeper and sent them to the finance department every quarter.	The store is one reviewed and approval the purchase orders and again is the one who supposed to prepare the invoices; this can cause fraud or error than cannot be easily detected. Again, there is delay in preparation of sales reports.	The staff in charge of preparing the invoices must differ with the staff who review and approve the purchase order, so Zirakamwa Ltd management must hire a staff in charge of invoicing Zirakamwa Ltd is advised to prepare sales reports on daily basis

SECTION C

QUESTION 13

Marking guide

Question	Description	Total Marks
Qn 13 a) i and ii	Award 1.5 Marks for every substantive audit procedure provided by the candidate Note: only 4 audit procedures were required Maximum of 6 marks means (4 points* 1.5 Marks each)	6
Qn 13 b)	Award 2 Marks per well explained analytical audit procedure Note: only three analytical audit procedures were required Maximum of 6 marks means (3 points* 2 Marks each)	6
Qn 13 c)	Award 1 Mark per every audit procedure Note: only four audit procedures were required Maximum of 4 marks means (4 points* 1 Mark each)	4
Qn 13 d)	Award 1 Mark per every audit procedure Note: only four audit procedures were required Maximum of 4 marks means (4 points* 1 Mark each)	4
	Total Marks	20

Model Answers

a) i) Audit procedures to verify completeness of the non-current assets

- Compare non-current assets recorded in Karenzi Ltd general ledger with non-current assets recorded in the assets register. Ask explanations for any variances
- For sample of the assets which physically exist agree that they are recorded in the non-current register

ii) Rights and obligations

- Examine that the non-current assets (motor vehicles) are registered in the names of Karenzi Ltd (need to obtain yellow cards of the motor vehicles and confirm whether they are registered in the name of Karenzi Ltd)
- Examine the documents of title for other assets (including purchase invoices, hire purchase or the lease agreements).
- If Karenzi Ltd owned the land, auditor must confirm whether there are land titles of the land and confirm if the land recorded in the name of Karenzi Ltd.

b) Substantive analytical procedures to be performed for the payroll expenses of Karenzi Ltd

- (i) The payroll expenses were increased compared to the last year: the audit must compare the total payroll expense to the prior year payroll and investigate any significant differences.
- (ii) Perform a proof in total wages and salaries, incorporating new joiners and leavers and any pay increase. Compare this to the actual wages and salaries in the financial statements and investigate any significant differences
- (iii) Review monthly payroll charges, compare this to the prior year and budgets and discuss with management any significant variances.
- (iv) If the Karenzi Ltd paid overtime hours, auditor has to compare overtime pay as a percentage of normal hours pay to investigate whether it is at the similar level compare to prior year and with at the acceptance range. If there is a significant difference the auditor must investigate the reason of the differences.

c) Audit procedure to be undertaken during the review of the inventory count

- i) For a sample of inventory items, carry out test counts from inventory items to inventory sheets to test the completeness and from inventory sheets to test existence of the inventory items
- ii) Obtain and record details of the last goods received notes and goods dispatched notes for 31 December 2022 to form cut off procedures at the audit
- iii) Observe whether teams carrying out the count are adequately following the inventory count instructions
- iv) Confirm that the procedures for identifying and separately storing damaged goods are operating effectively
- v) For sample of items marked damaged or obsolete on the inventory sheets, inspect whether the damaged and obsolete items were correctly recorded
- vi) If the company held the inventory of third party, confirm whether third party inventory were excluded from the stock count
- vii) Photocopy the inventory sheets for follow up and use it in performing the procedures confirm whether the balance as per stock count agree with the reported balances

d) Audit work on trade creditors

- i) Obtain a schedule of the trade creditors with appropriate age analysis and check this with the control account of the creditor's ledger
- ii) Review the year end cut- off procedures for purchases
- iii) Review the individual accounts with the largest through put of transactions during the period
- iv) Debit and credit balances should be separated; the debit balances should be included in debtors
- v) Review the internal control system over the purchases system which ensures that all goods received but not paid are properly recognized as liabilities of the entity
- vi) On testing individual balances that are doubtful, consider:

- Is the balance made up of specific items outstanding within the reasonable period?
- Can the amount be reconciled with the creditor's statements?
- vii) Perform analytical procedures on creditors, comparing age analysis with the previous period and creditors days.

QUESTION 14

Marking guide

Question	Description	Total Marks
Qn 14 a)	<p>Award 2 Marks per provide every situation of qualification of the audit report and its explanations.</p> <p>Note: only 3 situations were required Maximum of 6 marks means (3 points* 2 Marks each)</p> <p>Below are four situations:</p> <ul style="list-style-type: none"> i) Subject to qualification ii) Except for qualification iii) Adverse qualification iv) Disclaimer qualification 	6
Qn 14 b)	<p>Award 2 Marks per every well explained content of the main body of the audit report</p> <p>Note: only seven contents were required Maximum of 14 marks means (7 points* 2 Marks each)</p> <p>Below are contents of the main body of the audit report:</p> <ul style="list-style-type: none"> i) Appropriate report title ii) Address iii) Introductory paragraph iv) Scope paragraph v) Opinion paragraph vi) Audit report date vii) Name of audit firm 	14
	Total Marks	20

Model Answers

a) Three situations under which an auditor would consider qualification of the audit report of Twitezimbere Ltd.

- i) **Subject to qualification:** The audit will raise the subject to qualification to Twitezimbere Ltd in the case that there are some material matters about which the auditor has reasons to disagree situation. The subject to qualification is issued when a material uncertainty exists, whose subsequent resolution may substantially affect the financials (pervasive).
- ii) **Except for qualification:** This is indicating that there are some material matters which have quite significant effect and thus the financial statements give untrue information. E.g. When auditor noted that there is no provision is made for doubtful debts during the audit of Twitezimbere Ltd, in this case you can raise except for opinion.
- iii) **Adverse qualification:** Here, there is disagreement over a particular matter which is not only material but pervasive. For e.g. if the auditor noted that during the audit of Twitezimbere Ltd there is the case of non-compliance with the accounting principles. In that situation the auditor will issue the adverse opinion to the financial statements of Twitezimbere Ltd.
- iv) **Disclaimer qualification:** Here, the auditor refuses to express any opinion. For instance, if the auditor found that during the audit of Twitezimbere Ltd there is uncertainty regarding some item of financial statements or it is not possible to validate cash transactions.in that situation the disclaimer opinion will be issue to the financial statements of Twitezimere Ltd

b) Contents of the main body you will put in the audit report of Twitezimbere Ltd

i) Appropriate report title:

The title should indicate that the report is prepared by an independent auditor to confirm all the relevant ethical standard have been met.

ii) Address:

The report is usually addressed to the company, its stakeholders or board of directors. For practical reasons it limits the users of the auditor's report

iii)Introductory paragraph:

The introductory paragraph has three purposes, first, it makes a statement that the practice did an audit

Secondly, it lists all the financial statements that were audited including the balance sheet dates and accounting periods for the income statement and cash flow statement. The wording of the financial statements in the report should be identical to those used by management on the financial statement.

Thirdly, the introductory paragraph states that the statements are the responsibility of management and that the auditor's responsibility is to express an opinion on the statements based on the audit.

iv) Scope paragraph:

This paragraph is a factual statement about what the auditor did in the audit. This paragraph states how the audit was planned and performed in accordance with the International Standards of Auditing (ISAs) and states that the audit is designed to obtain reasonable assurance whether the financial statements are free of material misstatements.

v) Opinion paragraph:

This final paragraph states the auditor's conclusions based on the results of the audit. This part of the report is so important that often the audit report is simply called the auditor's opinion.

The opinion paragraph is stated as an opinion rather than a statement of absolute fact or guarantee.

vi) Audit report date:

The appropriate date for the report is the one on which the auditor has completed the most important audit procedures in the field. This date is important to users of financial statements as it indicates the last day of the auditor's responsibility for review of significant events that have occurred after the date of financial statements.

vii) Name of audit firm:

The firm's name is used because the entire firm has a legal responsibility to ensure that the quality of audit meets professional standards.

QUESTION 15

Marking guide

Question	Description	Total Marks
Qn 15 a)	Award 1 Mark for every briefly explained reason of documenting work done Note: only five reasons were required Maximum of 5 marks means (5 points* 1 Mark each)	5
Qn 15 b)	Award 2 Marks per every explained factor to consider while evaluating work of expert Note: only three factors were required Maximum of 6 marks means (3 points* 2 Marks each)	6
Qn 15 c)	Award 1 Mark for every provided limitation associated with gathering audit evidence Note: only five limitations were required Maximum of 5 marks means (5 points* 1 Mark each)	5
Qn 15 d)	Award 1 Mark for every provided reason why it is important that audit work performed by each staff be reviewed Note: only four reasons were required Maximum of 4 marks means (4 points* 1 Mark each)	4
	Total Marks	20

Model Answers

a) Audit work needs to be documented for a number of reasons which are outlined below:

- i) Audit documentation provides evidence of the auditor's basis for conclusion about the achievement of the auditor's objectives and evidence that the audit was planned and performed in accordance with ISAs and other applicable legal and regulatory requirements
- ii) It assists also the engagement team to plan and perform the audit
- iii) Its assists team members responsible for supervision to direct and supervise the audit work
- iv) It enables the team to be accountable for its work
- v) It allows a record of matters of continuing significance to be retained
- vi) And it allows for the conduct of quality control reviews and inspections

b) Factors that an auditor should consider when evaluating the work of an expert

i) Competency of expert: The expert's skills and competence in the particular profession. This is done by considering the expert's license or membership of an appropriate professional body, the experience and reputation in the field in which the auditor is seeking evidence.

ii) Objectivity: the risk that an expert's objectivity will be impaired increases where expert is employed by the client or where he is related financially with the client.

iii) Scope of the expert's work: The auditor should obtain sufficient appropriate audit evidence that the scope of the expert's work is adequate for purposes of the audit. Audit evidence may be obtained through a review of the terms of reference of the expert's work.

iv) Evidence used by the expert in arriving at his opinion: If the source of the data is reliable, then the auditor can reasonably use the work of the expert as audit evidence

v) Methodology: auditor should obtain an understanding of those assumptions and methods to determine that they are reasonably based on the auditor's knowledge of the client's business and the results of his audit procedures.

c) Limitations associated with gathering audit evidence:

- i) The auditor gathers evidence on the test basis. The sample may or may not be representative
- ii) Documents could be forged. This becomes increasingly easily with digital technology
- iii) Possibilities of bias where observation is used
- iv) The client's personnel may not always tell the truth
- v) The technique used may be limited in its application because it may not detect errors or omissions made consistently year on year
- vi) It is not practical to test 100% of every item within the financial statements
- vii) Technicalities of the client's business may hinder the process of gathering quality evidence
- viii) Inherent limitations in accounting and internal controls and, estimates used in the financial statements.

d) Reasons why it is important that audit work performed by each staff be reviewed

This involves a review of audit work performed by each staff member by a person of equal or higher competence to consider whether:

- i) The audit work has been performed in accordance with the audit program
- ii) The work performed and results obtained have been adequately documented
- iii) All significant audit matters have been resolved or reflected in the audit conclusions
- iv) The objectives of the audit have been achieved
- v) The conclusions expressed are consistent with the results of the work performed and support the audit opinion

END OF MARKING GUIDE AND MODEL ANSWERS