



**CERTIFIED ACCOUNTING TECHNICIAN
STAGE 3 EXAMINATIONS**

S3.4: AUDIT AND ASSURANCE

DATE: TUESDAY 25, APRIL 2023

INSTRUCTIONS:

- 1. Time allowed: 3 hours.**
- 2. This examination has three sections: A, B and C.**
- 3. Section A has 10 multiple choice questions equal to 2 marks each.**
- 4. Section B has 2 questions equal to 10 marks each.**
- 5. Section C has 3 questions equal to 20 marks each.**
- 6. All questions are compulsory.**
- 7. The question paper should not be taken out of the examination room.**

SECTION A

QUESTION ONE

Your audit firm is in process of accepting Kaneza Ltd as a new client, because the audit partner is very busy in other works, he delegates you to do necessary steps and recommend the firm whether to accept or reject this new client.

Which of the following source of information is necessary to be considered before accepting the new client?

- i. The client's most recent annual financial statements.
- ii. Communication with the previous auditors.
- iii. Press reports on the client's activities.
- iv. Other business publications of the client.
- v. References from existing clients.
- vi. Credit ratings.

- A (i) and (iii)
- B (ii), (v) and (vi)
- C (i), (ii), (iv) and (v)
- D All of the above

(2 Marks)

QUESTION TWO

You are in the final stage of CAT and currently, you are an accountant of Nyamasheke District.

You have attended the meeting of internal auditors of the rice processing cooperatives operating in the district and you are invited to train them about fundamental principle of the professional ethics.

While explaining to the participants, which of the following is not a fundamental principle of professional ethics?

- A Integrity.
- B Objectivity.
- C Independence.
- D Confidentiality.

(2 Marks)

QUESTION THREE

Your audit firm is in audit of HTNK Ltd and you observed that there are close relationships between the audit senior and the head of finance department. You are aware that the close relationships between auditor and the audit client can lead to lack of independence and also close relationships cause the self-interest threats.

Which of the following statements is not an example of self-interest threats?

- A The audit senior seek employment from the audit client.
- B The audit firm has been auditing HTNK Ltd for the period of 15 years.
- C There are personal relationships between audit senior and staff of audit client.
- D The audit staff are offered the gifts by client staff.

(2 Marks)

QUESTION FOUR

In relation to the audit engagement of Maso Ltd, the audit supervisor assigned you to determine the performance materiality. You agreed that you are able to determine performance materiality and make its interpretation.

Which of the following statements about performance materiality is true?

- i. The performance materiality helps the auditor to understand the entity.
- ii. The auditors use performance materiality level to reduce the risk that the aggregate of uncorrected and undetected misstatements exceeds materiality of the financial statements.
- iii. Performance materiality refers to the amounts set by the auditor at higher than the overall materiality at the financial statements level.
- iv. The 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 (i) and (ii)
- B (ii) and (iii)
- C (ii) and (iv)
- D (i) and (iv)

(2 Marks)

QUESTION FIVE

You are an audit senior during the audit of ML Ltd. Before starting the audit, you told the audit assistants to read the prior year audit report in order to understand the entity, by reading the prior year audit report, one of the assistant auditors noted that the prior year financial statements were misstated and asked you about the responsibility of the auditor in relation to misstatements in the financial statements.

Which of the following statements correctly describes the auditor's responsibility in relation to misstatements?

- A The auditor must aggregate both material and immaterial misstatements and report them in the audit report.
- B In the completion procedures, the auditor shall consider whether the aggregate of uncorrected misstatements in the financial statements is material.
- C The auditor must report the material misstatements to the board of directors before presenting them to management.
- D At the end of audit, the auditor must report both corrected and uncorrected misstatements in the audit report.

(2 Marks)

QUESTION SIX

Referring to question five (5) above, which of the following steps should you take first in relation the uncorrected misstatements in the financial statements of ML Ltd

- A Advise management to organize the training of the financial staff in order to avoid any kind of misstatement during the next audit.
- B Qualify the audit opinion on financial statements because there are material misstatements in the financial statements.
- C Accumulate the misstatements in the working paper of unadjusted audit differences and advise management to hire the qualified staff.
- D Ask directors to correct the material misstatements and explaining to them it is material to the financial statements of ML Ltd.

(2 Marks)

QUESTION SEVEN

You are part of the team of XY Ltd, and you are assigned to audit motor vehicles recorded in the statement of financial position.

Which of the following audit procedures will not be part of the audit procedure you will use to confirm completeness and existence of the balances of motor vehicles recorded in the statement of financial position?

- i. Confirm existence of the reported motor vehicles.
- ii. Confirm whether there are qualified drivers using the motor vehicles in order avoid them to be depreciated before the expected useful life.
- iii. Confirm whether the balances reported in the financial statements agreed with the balance as per assets register.
- iv. Confirm whether the Company are using the motor vehicles for intended purpose.

A (i) and (ii)

B (i), (ii) and (iv)

C (ii) and (iv)

D None of the above

(2 Marks)

QUESTION EIGHT

You are assigned to audit the inventory of MM Ltd, a company producing Urwabitoki beer.

The company has an inventory in every district of Rwanda.

Which one of the following statements are true regarding to the auditor's attendance at the stock count of MM Ltd?

A It is auditor's duty to organize stock count of MM Ltd.

B If the results of counts tests are not satisfactory, the auditor should tell MM Ltd to recount the inventory.

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

D None of the above.

(2 Marks)

QUESTION NINE

You are in the audit of WB Ltd. This company has many legal claims during the year under audit, you discussed with the director of finance and he told you that all legal claims were not disclosed due to availability of information.

Which of the following procedures is likely to provide you as auditor with the most reliable audit evidence during the audit of legal claims of WB Ltd?

- A Send the enquiry letter to the lawyer of WB Ltd to obtain the status of the legal claims.
- B Review the correspondences between WB Ltd and the lawyer.
- C Read the minutes of senior management meeting to assess what they discussed on legal claims.
- D None of the above.

(2 Marks)

QUESTION 10

After the exit meeting of audit of Kanzeguhera Ltd, Alice, an interne in the internal audit department of that company approached you and said “I know as external auditor you have to collect sufficient audit evidence to support the audit opinion”. So how can you know how much audit evidence you need to get?

Explain to Alice, which one of below factors influence auditor judgement in collecting sufficient audit evidence?

- A The time allocated to the audit
- B The number of transactions of the audited account
- C The previous audit report of the company
- D The source and quality of audit evidence available

(2 Marks)

SECTION B

QUESTION 11

You have been appointed as internal auditor of NF Ltd a company dealing with purchases and selling of motor vehicles. The company's internal controls are very weak and your major responsibility is to recommend and design the internal controls over the purchases and sales.

Required:

- a) Briefly explain to management of NF Ltd the four purposes of good internal control system. (4 Marks)
- b) Describe the three internal control procedures you would recommend NF Ltd in the following areas:
 - i) Receipt of goods (3 Marks)
 - ii) Invoicing and returns (3 Marks)

(Total: 10 Marks)

QUESTION 12

Kariza Ltd produces Zirakamwa milk. This Company has branches in all districts of Rwanda. Below is summary of the company process for distributing its products to customers and the invoicing process:

The main store is located in Kigali, at every branch the orders received from the customers and the branch representative must make a phone call to head quarter to deliver the ordered goods and the delivery is made within 5 days. Both branch and headquarter do not make any record by the time of processing of the order and the driver at head quarter must know the quantity of delivered goods because he/she is the one who is supposed to inform the branch staff the quantity of the delivered goods in order to help them to complete their records.

At the end of every month, all branches must submit all purchase orders from clients to headquarter for review and approval. Store keeper at headquarter reviews and approves the purchase orders and process the invoices to the clients for payments. The reports of sold goods are prepared by the store keeper and sent it the finance department every quarter.

Required:

In respect of Kariza Ltd, identify and explain four deficiencies in the selling system and recommend control to address each of these deficiencies. (10 Marks)

(Total: 10 Marks)

Note: Prepare your answer using three columns headed by control deficiency, explanation and recommendation.

SECTION C

QUESTION 13

Karenzi Ltd is a transportation Company operating in Kigali city. The company owned more than 1,000 motor vehicles using in transportation services. your audit firm CC& Associates is the auditor of Karenzi Ltd for the year ended 31 December 2022. Because you are in stage three of CAT, you have been assigned by the audit senior to audit most of the components including non-current assets, inventory, payroll expenses and accounts payables.

Below is an extract of Karenzi Ltd assets, liabilities and expenses.

Description	31 December 2022	31 December 2021
	FRW''000''	FRW''000''
Property, plant and equipment	1,000,000	850,000
Inventory	175,000	80,000
Payroll expenses	250,000	100,000
Administrative expenses	140,000	160,000
Account receivables	70,000	55,000
Trade creditors	120,000	60,000

Required:

- a) Describe two substantive procedures you should adopt to verify the following assertions in relation to Karenzi Ltd property plants and equipment:
 - i) Completeness (3 Marks)
 - ii) Lights and obligations (3 Marks)
- b) Describe three substantive analytical procedures you should perform to confirm payroll expenses of Karenzi Ltd. (6 Marks)
- c) Describe four audit procedures to be undertaken during the inventory count of Karenzi Ltd in order to gain sufficient audit evidence. (4 Marks)
- d) Outline audit work you would undertake to obtain reasonable assurance that the trade creditors appearing in the balance sheet of Karenzi Ltd are not material misstated. (4 Marks)

(Total: 20 Marks)

QUESTION 14

You are a junior member of the audit team during the audit of Twitezimbere Ltd, a Company whose business is cassava processing for local consumption. The annual sales for the year ended 31 December 2022 was FRW 70 billion as per available documentation but only FRW 40 billion was reported in the financial statements. During the audit, you noted that the remaining FRW 30 billion was reported in wrong accounting period and the audit manager told you that this amount is material and will modify the audit opinion.

Due to the volume of work in your audit firm, the senior in the team was moved to the other assignment and you are informed that you are the one who supposed to prepare the audit report.

Required:

a) As auditor, identify and explain three situations under which an auditor would consider for qualification of an audit report. (6 Marks)

b) Explain the seven contents of the main body you will put in the audit report of Twitezimbere Ltd. (14 Marks)

(Total: 20 Marks)

QUESTION 15

You are audit senior in HTNK & Associates. Currently you are in audit of KLA Ltd, a big manufacturing company operating Rwanda, you are the one in charge of training of new auditors and this is their first assignment. The new auditors are aware that they are supposed to prepare working papers but they do not know to do so or what information they should include in the audit working paper.

Required:

a) Briefly explain to the new auditors the five reasons why their must document their work. (5 Marks)

b) List and explain to the new auditors three factors that an auditor should consider when evaluating the works of an expert. (6 Marks)

c) Give five reasons to the new auditors why it is important that audit work performed by each audit staff be reviewed. (5 Marks)

d) Discuss with the new auditors any four limitations associated with gathering audit evidence. (4 Marks)

(Total: 20 Marks)

End of Question Paper

