



CERTIFIED ACCOUNTING TECHNICIAN
STAGE 3 EXAMINATIONS
S3.4 AUDIT AND ASSURANCE
DATE: TUESDAY, 27 AUGUST 2024

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

The International Ethics Standards Board for Accountants IESBA Code of Ethics states that the auditor should be seen to be independent of mind and in appearance. Therefore, firms should have appropriate internal procedures to deal with potential independence problems.

Which one of the following is NOT among the main safeguards to deal with potential independence problems?

- A Client acceptance procedures.
- B Audit staff move to work at the audit client premises.
- C An annual review of independence, both for the whole firm and for individual clients.
- D Consultation procedures in cases of doubt.

(2Marks)

QUESTION TWO

ISA 210 “*Agreeing the terms of audit engagements*” states that the objective of the auditor is to accept or continue an audit engagement only when the basis on which it is to be carried out has been agreed. The same ISA states that in order to establish whether the preconditions of an audit are present the auditor is required to perform certain procedures.

Which one of the following is NOT among the procedures required to establish whether the preconditions of an audit are present?

- A Determine whether the financial reporting framework used is acceptable.
- B Obtain agreement from management that it acknowledges and understands its responsibility in respect of the preparation of the financial statements.
- C Obtain agreement from management that it acknowledges and understands its responsibility in respect to internal controls relevant to the preparation of the financial statements.
- D A statement that there may be circumstances where the actual form and content may differ from what was expected.

(2Marks)

QUESTION THREE

An Error is an unintentional misstatement in the financial statements, including the omission of an amount or a disclosure;

Which of the following scenario is NOT an error?

- A Not posting the recorded transactions in various books of accounts to the respective accounts in ledger.
- B Mistakes in totaling or in carrying forward the totals to the next page.

- C Director of Finance submits false invoice which he pretends are from a supplier, and then he approves them for payment, knowing the payment will actually go into a bank account belonging to him.
- D Wrongly, writing it in a wrong account or on the wrong side of the account.

(2Marks)

QUESTION FOUR

ISA 300 “*Planning an Audit of a Financial Report*” states that the auditor should develop an audit plan for the audit in order to reduce audit risk to an acceptably low level.

Which of the following should NOT be included in the audit plan?

- A A description of the nature, timing and extent of planned risk assessment procedures sufficient to assess the risks of material misstatement.
- B A description of the nature, timing and extent of planned further audit procedures at the assertion level for each material class of transactions, account balance and disclosure. This will include tests of controls and substantive procedures.
- C Any other audit procedures required for the engagement to comply with ISAs.
- D Consideration of available time, staff and technical expertise.

(2Marks)

QUESTION FIVE

External auditors give an opinion on the fair presentation, or truth and fairness of financial statements. It is important to understand that fair presentation/true and fair does not mean absolutely correct.

Which of the following is the reason why an auditors cannot say that financial statements are absolutely correct?

- A Auditors use selective testing, rather than testing every transaction.
- B The inherent limitations of internal control. (Internal controls rely on human diligence and compliance, but there is always a risk of people failing to follow the correct procedures, or doing the wrong thing.).
- C The fact that much of the evidence available to the auditor is persuasive rather than conclusive.
- D Financial statements are a combination of fact and judgement

(2Marks)

QUESTION SIX

Analytical procedures consist of evaluations of financial information made by a study of plausible relationships among both financial and non-financial data. Auditors should apply analytical procedures as risk assessment procedures to obtain an understanding of the entity and its environment.

Which among the following should serve as possible sources of information about the client during risk assessment procedures?

- (i) Budget.
- (ii) Interim financial information
- (iii) Board minutes
- (iv) Information for prior periods

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

(2Marks)

QUESTION SEVEN

IAS 1 “*Presentation of financial statements*” requires management to make an explicit assessment of the entity's ability to continue as a going concern.

When management is making an assessment on going concern of a given company, **which of the following is NOT a factor that should be taken into consideration as guided by ISA 570 “*Initial audit engagements-opening balances*”?**

- (i) The degree of uncertainty about the events or conditions being assessed increases significantly the further into the future the assessment is made.
- (ii) Status of items involving subjective judgement/accounted for using preliminary data.
- (iii) Judgements are made on the basis of the information available at the time.
- (iv) Judgements are affected by the size and complexity of the entity, the nature and condition of the business and the degree to which it is affected by external factors.

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

(2Marks)

QUESTION EIGHT

With reference to ISA 520 “Analytical procedures”, Which of the following is considered to be an analytical procedure?

- (i) Comparisons of financial statement amounts with non-financial data.
- (ii) Comparisons of financial statement amounts with budgeted amounts.
- (iii) Comparisons of financial statement amounts with source documents.
- (iv) Comparisons of financial statement amounts with comparable prior year amounts.

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

(2Marks)

QUESTION NINE

All members and students of the ICPAR are subject to the provisions of the ICPAR Code of Ethics, which conforms with the requirements of the IESBA Code of Ethics;

Which of the following is NOT a fundamental principle set out in IESBA Code of Ethics to be complied by members and students?

- A Integrity and objectivity.
- B Professional competence and due care.
- C Confidentiality and Professional behavior.
- D Self-review

(2Marks)

QUESTION 10

The preliminary judgment about materiality is the.....amount by which the auditor believes the statements could be misstated and still not affect the decisions of reasonable users.

Which of the following words can fill the above sentence to make it meaningful in line of materiality concept?

- A Minimum
- B Mean average
- C Median average
- D Maximum

(2Marks)

SECTION B

QUESTION 11

BAHEZA Furniture Ltd is local company involved in production of furniture equipment, which are sold across the country using its own vehicles. The company head office is located in Kigali, Rwanda. Among the key products processed and distributed to its customers are office and home furniture.

For the last five years, the company used to buy all needed raw material from the source (wood from rural areas) and other finishing materials imported from China. Chief Operations Officer of the company resigned with immediate effect in July 2023, and since then the company started buying raw materials from Nyarugenge furniture market located in Kigali.

The company started preparing the financial statements for the year ended 31 December 2023 and Chief Finance Officer is suspecting a loss based on draft figures being worked on. He discussed his concern to Chief Executive Office and advised to ensure proper inventory valuation and assessing going concern of the company among others.

Required:

- (a) As per ISA 570, 'going concern', **Briefly define the term *going concern concept* and identify Three factors that should be taken into consideration by management when making assessment on going concern?** (4 Marks)
- (b) **Describe the audit procedures that should be carried out by an auditor to ascertain the completeness of costs attributed to production.** (6 Marks)

(Total: 10 marks)

QUESTION 12

You are a senior auditor at Quality Partners and Associates, your firm has been appointed to audit the financial statements of Mataba and Co. Ltd for the year ended 31 December 2023. The audit manager assigned you the overall review of financial statements. The company is specialized in construction industry and it use its own tangible assets.

During a discussion with the internal auditor of Mataba and Co. Ltd the audit team noted that on 15 January 2024, a material fraud was discovered by him. The accountant had been diverting funds into a fictitious supplier bank account, which had been occurring for the past six months. The employee was immediately dismissed after issuance of internal audit report and legal proceedings against the employee initiated.

Required:

- (a) The overall review of financial statements should include a review of accounting policies, consistency and reasonableness. **Briefly elaborate Four considerations that should be taken into account by the auditor during examination of the accounting policies used by the company.**
(4 marks)
- (b) IAS 10 “Events After the Reporting Period” deals with the treatment in financial statements of events, both favourable and unfavourable, occurring after the period-end. **Briefly describe the two types of events after reporting period.** (3 Marks)
- (c) As senior auditor in the firm, **highlight the key areas of concern when auditor is testing tangible non-current assets.** (3 Marks)

(Total: 10 Marks)

SECTION C

QUESTION 13

CLEAR Cleaners Ltd is a cleaning company based in Kigali, the company is also involved in the collection of non-hazardous waste from private families and other government institutions. The following is an extract of the company's draft financial statements for the year ended 31 December 2023

	Note	31st Dec 2023	31st Dec 2022
		Frw million	Frw million
Non- current assets			
Property, plant and equipment		100,000	95,000
Intangible asset – Goodwill		13,000	13,000
		113,000	108,000
Inventory		48,200	46,150
Account receivables		60,000	54,000
Total Assets		221,200	208,150
Equity and liabilities			
Share capital		100,000	100,000
Retained earnings		90,000	78,000
		190,000	178,000
Long-term loans		20,000	18,000
Provisions and contingent liabilities		11,000	12,000
Other current liabilities	1	200	150
Total equity and liabilities		221,200	208,150

Your audit firm was appointed to audit CLEAR Cleaners Ltd financial statements for the year ended 31 December 2023. As senior auditor in the team, you have been assigned to review material component in the financial statements including account receivables balance, Provisions and contingent liabilities, Inventory and payroll.

Additional note: Other current liabilities is made of salaries due to companies' employees not yet paid by 31 December 2023 and accrued in the financial statements.

Required:

- (a) You have been assigned to review the account receivables balances, among others you opted to use confirmation from major customers. **Briefly, describe Two types of confirmation that should be sent to the company's customers.** (4 Marks)4
- (b) The objective of IAS 37 Provisions, contingent liabilities and contingent assets is to ensure that contingent liabilities, assets and provisions are properly accounted for and disclosed. It specifies considerations for selected items of contingencies relating to litigation and legal claims, which will represent the major part of audit work on contingencies. **Briefly explain the basic audit procedures that should be designed and performed by the auditor in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement.** 5 marks

(c) The ISA 501 “*Audit evidence - specific considerations for selected items*” provides guidance to auditors on attending the physical inventory count to obtain evidence regarding the existence and condition of inventory. **Elaborate the principal procedures that should be carried out by auditors when attending a physical inventory count.** 5 marks

(d) Tests of controls should be designed to obtain evidence that the client is carrying out adequate checks on the calculations of wages and salaries. **Elaborate the tests of controls performed by the auditor to obtain evidence that the client is carrying out adequate checks on the calculations of payroll.** 6 marks

(Total: 20 marks)

QUESTION 14

You are a Senior Auditor at GUYS Partners and Associates and recently completed CAT qualification. Together with your audit manager who is still CAT - stage 3, you are discussing how you can improve the internal control system in the firm and how you can increase compliance with internal auditing standard in your firm. The audit manager is expecting more ideas and guidance from you as Certified Accounting Technician.

Required:

(a) Before a new audit client is accepted, the auditors must ensure that there is no independence or other ethical problems likely to cause conflict with the ethical code. **Briefly describe the acceptance procedures that nominee auditors should carry out before they accept an appointment.** (4 Marks)

(b) Auditors have a professional duty of confidentiality. However, they may be compelled by law, or consider it desirable for the public interest, to disclose details of clients' affairs to third parties. **Briefly describes Two types of possible disclosure.** (4 Marks)

(c) It is the responsibility of the audit partner to ensure communication between client staff and audit staff. Considering that the audit partner is unlikely to visit the client site during the audit, **Elaborate key consideration that the audit partner should take into account to ensure proper communication between the client and audit staff.** (4 Marks)

(d) Your firm is in need to improve its filing method in both permanent and current files. **Elaborate contents of a permanent audit file to your audit manager.** (8 marks)

(Total: 20 marks)

QUESTION 15

a) ISA 700 “*Forming an opinion and reporting on financial statements*” gives guidance on the basic auditor's report where no modification is required. Further ISA 705 “*Modifications to the opinion in the independent auditor's report*” gives guidance when there a modification. **Briefly describe Types of audit opinions that can be issued by auditor.** (10 Marks)

b) Internal control system can only provide the directors with reasonable assurance that their objectives are reached, because of inherent limitations. **Define the term “Internal controls system” and elaborate objective of management in setting up an internal control in the accounting system.** (5 Marks)

c) The tests of controls on sales system are based on Selling (authorization), Goods outwards (custody) and Accounting (recording and valuation). **Elaborate control activities related to o the ordering and credit control process.** (5 marks)

(Total:20 Marks)

End of Question Paper