



CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATIONS

S3.4: AUDIT AND ASSURANCE

DATE: TUESDAY 27, FEBRUARY 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. Question paper should not be taken out of the examination room.**

SECTION A

QUESTION ONE

ISA 240 The *auditor's responsibilities relating to fraud in an audit of financial Statements*, defines a fraud as an intentional act done by those employees, third parties, or management to obtain personal benefit at the expense of the company. **Which of the following highlights why fraud may occur?**

- (i) Incentive to commit fraud
- (ii) Rationalization of the act
- (iii) Perceived opportunity to do so
- (iv) Individual leaving beyond their means
- (v) People believe that the accounting system can be overridden

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

(2 Marks)

QUESTION TWO

IAS 2 *Inventory* requires inventory to be measured at the lower of cost and net realizable value (NRV) and outlines acceptable methods of determining cost, including specific identification (in some cases), first-in first-out (FIFO) and weighted average cost. **Which of the following tests does not help in determining the value of inventory to be recognized?**

- A Review and test the client's system for identifying slow-moving, obsolete, or damaged inventory to determine its effectiveness in identifying items which may be written down to NRV.
- B Circularize the debtors to confirm the amount of inventory sold to them for reconciliation with the inventory records.
- C Review quantities of good sold after the year end to determine that inventory at the year-end has been or will be realized.
- D Observe whether correct cut-off procedures are being followed in the dispatch and receiving areas.

(2 Marks)

QUESTION THREE

Simba Plc operates food warehouses throughout Rwanda. The company makes large purchases from manufacturers and suppliers based within Rwanda and abroad. It distributes these goods to supermarkets and wholesalers. Each warehouse maintains its stock records; goods inwards and dispatch notes. Head office maintains a financial control over the stocks based on the daily value of sales and value of daily purchases. Your audit firm has been appointed to audit Simba Plc. **Which among the following test of controls will help ascertain whether the stocks are correctly valued?**

- (i) Select a sample of inventory movements records and reperform matching to goods received and dispatched notes
- (ii) Review capital expenditure on inventory and observe that inventory held is properly depreciated
- (iii) Confirm that movements of inventory have been authorized
- (iv) Select sample of goods received and agree to inventory and confirm the maintenance of an inventory register

- A (i), (ii) and (iv)
- B (i) and (iii)
- C (ii) and (iv) only
- D (ii) only

(2 Marks)

QUESTION FOUR

IAS 2 Inventories contains the requirements on how to account for most types of inventories. You are part of the audit team, and you were assigned to test controls over non-current assets for your client. **Which of the following is not an important control objective relating to inventory?**

- A To ensure that all inventory movements are authorized and recorded
- B To ensure that inventory is safeguarded against loss, embezzlement, or damage
- C To ensure that inventory is classified as a current asset in the balance sheet
- D To ensure that the levels of inventory held are reasonable

(2 Marks)

QUESTION FIVE

Your firm, Jean and company associates has been contracted by Coca Cola company to audit its financial statements for the year ended 31st December 2023. During the audit, you discovered the bank balance as per cashbook do not agree with the balance as per bank statement. As part of your verification, you requested the management to provide your firm with a list of bank accounts owned by the company and requested for permission to write bank confirmation letters, a request which was rejected by the managing director, citing the confidentiality of such details. **Which of the following is a correct combination of rights of auditor in accordance with the International Standards on Auditing (ISAs) and Company's Act that should be explained to coca cola's company management?**

- (i) Information and explanations; and receive all notices of and communications in relation to general meeting each member of the company is entitled to receive
- (ii) Coordinate and speak at general meetings,
- (iii) Receive a copy of any written resolution proposed,
- (iv) Access at limited time to the books, accounts, and the vouchers of the company.

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

(2 Marks)

QUESTION SIX

Which of the following audit procedures are appropriate to test the valuation assertion for non-current assets?

- (i) Ensure disposals are properly accounted for and recalculate gain/loss on disposal
- (ii) Recalculate the depreciation charge for sample of assets ensuring that it is being applied consistently and in accordance with IAS 16 property plant and equipment
- (iii) Review the repairs and maintenance expense account for evidence of a capital expenditure and Request for the title documents for evidence of ownership
- (iv) Agree a sample of additions included in the non-current register to purchase invoice and cashbook

- A (i), (ii), and (iv)
- B (ii), (iv) and (iii)
- C (i), (iii) and (iv)
- D (i), (ii), (iv) and (iii)

(2 Marks)

QUESTION SEVEN

According to ISA 501; *audit evidence-specific considerations for selected items*, the auditor has to obtain sufficient evidence regarding inventory to ascertain the value and existence of inventory as at the reporting date. You are part of the audit team, and you were assigned to audit inventory of a new client. **Which among the following is a correct combination of auditor's duties during stock take?**

- (i) Observe whether the client's staff are following instructions.
- (ii) Record fully the work done and the impressions of stock take in the working papers.
- (iii) Review surrounding systems of internal control to identify areas of potential difficulty and confirm the client's final valuation of inventory has been calculated correctly to confirm accuracy
- (iv) Take note of movement of inventory during the count.

- A (i) and (v) only
- B (i), (ii), (iv) and (iii)
- C (i), (iii) and (iv)
- D (i), (ii) and (iv)

(2 Marks)

QUESTION EIGHT

You have been assigned the audit for wages and salaries for Uwineza Ltd. The audit manager has asked you to review the full list of trade payables and select balances for which supplier statement reconciliations will be performed. Which THREE of the following items should you select for testing?

- (i) Suppliers with material balances at the year-end
- (ii) Suppliers which have a high volume of business with Uwineza Ltd
- (iii) Major suppliers of Uwineza Ltd with nil balances at the year-end
- (iv) Major suppliers of Uwineza Ltd where the statement agrees to the ledger

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

(2 Marks)

QUESTION NINE

You are part of the audit team for Nyamugongo eateries for the year ending 31st dec 2023. Your client has informed you that there was an incidence of food poisoning in May 2023. Some customers have gone to court to claim damages for expenses incurred in hospital bills but the directors believe that the case will not be successful. **Which of the following audit procedures will provide the auditor with the MOST reliable audit evidence regarding the contingent liability?**

- A Request a written representation from the management supporting their assertion that the claim will not be successful.
- B Send a confirmation request from the lawyers Nyabugongo eateries to obtain their view as to the probability of the claim being successful.
- C Review the correspondence from the customers claiming food poisoning to assess whether Nyamugongo eateries has present obligation as result of a past event.
- D Review board minutes to understand why the directors believe that the claim will not successful,

(2 Marks)

QUESTION 10

The primary issue in accounting for inventories is the amount of cost to be recognized as an asset and carried forward until the related revenues are recognized. **Which among the following procedures best describes auditing of the valuation of inventories.**

- (i) Ensuring that allocation of overheads is appropriate
 - (ii) Confirming inventories are valued at lower of cost and net realizable value
 - (iii) Reviewing price changes near the year end
 - (iv) Ageing the inventory held
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- A (ii) only
 - B (ii) and (iv) only
 - C (i), (ii) and (iii)
 - D All of the above

(2 Marks)

SECTION B

QUESTION 11

Orange Beach Hotel provides accommodation, leisure facilities and restaurants services. You are the Senior Auditor at Berry & Co which won the tender for the audit of Orange Beach Hotel for the year ended 30 December 2023 and you are currently preparing the programs for the year-end audit of Orange Beach Hotel. While reviewing the notes of recent meeting between the audit manager and finance manager; you discovered that Orange Beach Hotel incurred significant capital expenditure during the year in acquiring new gym equipment. The finance manager has proposed that the new leisure equipment should be depreciated over 10 years using the straight-line method.

Required:

- (a) Describe the substantive procedures that will be performed to obtain sufficient and appropriate audit evidence about the acquisition and depreciation of the gym equipment. (6 Marks)**
 - (b) List four assertions relevant to the audit of tangible non-current assets and state one audit procedure which provides appropriate evidence for each assertion. (4 Marks)**
- (Total: 10 Marks)**

QUESTION 12

You are the audit manager of your firm Katuna CPAs. while planning the audit of a new client, Majyambere Co for the year ended 31st Dec 2022; The audit manager informs you the following from the planning meeting held with the finance director:

Majyambere Co purchases consumer packed goods and sell these goods through its website to retailers and wholesalers.

Rather than undertaking a full year-end inventory count, the company undertakes monthly perpetual inventory counts, covering one-twelfth (1/12) of all lines monthly as part of the interim audit which was performed earlier this year, an audit assistant attended a perpetual count in august and noted that there were large number of exceptions where the inventory records were consistently higher than the physical inventory in addition some lines of inventory were at least 90 days old.

Majyambere has a head office where the audit team will be based to conduct the final audit. However, There are four additional sites where some accounting records are maintained, and these sites were not visited during the interim audit. The records are incorporated monthly through an interface to the general ledger. A fifth site was closed down in 2021, however, the building was sold in 2022 at a loss of FRW 825 million.

Majyambere financial statements extract for the year ended 31st December 2022 and 2021 were as follow:

Item	2022 FRW (000)	2021 FRW (000)
Revenue	25230	21180
Cost of sales	(15840)	(14015)
Gross profit	9390	7165
Operating expenses	(4903)	(3245)
Operating profit	<u>4487</u>	<u>3980</u>
inventory	2360	1800
Trade receivables	1590	1250
Cash	-	480
Trade payables	3500	2800
overdraft	580	-

Required:

- (a) Describe five matters Katuna CPAs should have considered before accepting to audit Majyambere Co. (5 Marks)
 - (b) Calculate at any two ratios for both years which would assist you in planning the audit of Majyambere Co. (2 Marks)
 - (c) From a review of the above information and ratios calculated, describe three audit risks, and explain the auditor's response to each risk in planning the audit of Majyambere Co. (3 Marks)
- (Total: 10 Marks)**

SECTION C

QUESTION 13

Muhozi Plc whose financial year ended on 30th June was on the target for a takeover by Kigali Industries Plc. In March 2023 Muhozi Plc had issued a profit warning, which had halved its share price. In May 2023, Muhozi Plc's directors made a preliminary announcement on its annual profits for the year. This confirmed the position was bad which led to a subsequent fall in share price. At this point Kigali had begun buying up Muhozi Plc's shares in large numbers. In July 2023, the annual accounts which now included Kigali Industries Plc were audited and certified by Jean& Associates and issued to the shareholders. After the issue of the financial statements, Kigali Industries Plc got a controlling interest in Muhozi Plc. But once it had control, Kigali Industries Plc management found that Muhozi Plc's accounts were in worse state than had been revealed by the directors and the auditors. Hence, Kigali Industries Plc sued Jean & Associates for negligence in certifying Muhozi Plc accounts and sought to recover its losses.

Required:

- (a) **Explain to Kigali three things must exist for the company to bring a successful negligence claim against the auditors and state whether the case will be ruled in their favor.** (8 Marks)
- (b) **Define a fraud and describe the auditor's responsibilities in relation to fraud and errors.** (5 Marks)
- (c) **Identify five responsibilities for the directors in relation to the books of accounts.** (5 Marks)
- (d) **Explain professional skepticism in light of auditor's responsibilities as far as detection of errors and frauds is concerned.** (2 Marks)

(Total: 20 Marks)

QUESTION 14

You are a senior Auditor in Virunga & Co, the audit manager has appointed you to audit the sales system of Kivu electronica, an electrical sales wholesale business based in Rwanda. The company maintains one large warehouse in Rubavu city. The customers of Kivu electronica are mainly the owners of small retail shops, where electrical goods are sold to the public. Kivu electronica only sells to the authorized customers following appropriate credit checks. Also, each customer is given a Kivu electronica identification card to confirm his/her status and the card must be used to obtain goods from the warehouse.

The dispatch and sales system operates as follows:

1. Customers visit Kivu electronica warehouse and load the goods they require into their vans after showing their Kivu electronica identification card to dispatch staff.
2. A pre-numbered Goods Dispatch Note (GDN) is produced and signed by the customer and a member of Kivu electronica dispatch staff confirming goods taken.
3. One copy of the GDN is sent to the accounts department, the second copy is retained in the dispatch department.
4. Accounts staff enter goods dispatch information onto the computerized sales system and the GDN is signed.
5. The computer system produces the sales invoice, with reference to the inventory master file for product details and prices, maintains the sales daybook and also the receivables ledger. The receivables control account is balanced by the computer.
6. Invoices are printed out and sent to each customer in the post with paper copies maintained in the accounts department. Invoices are compared to GDNs by accounts staff and signed.
7. Paper copies of the receivable's ledger control account and list of aged receivables are also available.
8. Error reports are produced showing breaks in the GDN sequence.

Required:

- (a) Using information from the scenario, **list six tests of control that an auditor would normally carry out on the dispatch and sales system at Kivu electronica and explain the reason for each test.** (12 Marks)
- (b) **Identify four control objectives and control activities that would help kivu electronica sales system to become more efficient.** (8 Marks)

(Total: 20 Marks)

QUESTION 15

You are an audit supervisor reviewing the documentation describing Gakweto purchases and payables system, a retailer of books with ten stores and a central warehouse, which holds the majority of the company's inventory.

The store managers are responsible for ordering books for their shop. It is not currently possible for store managers to request books from any of the other nine stores. The customers who wish to order books, which are not in stock at the branch visited, are told to contact the other stores directly or visit the company website. As the inventory levels fall in a store, the store manager raises a purchase requisition form, which is sent to the central warehouse. If there is insufficient inventory held, a supplier requisition form is completed and sent to the purchase order clerk, Pierre, for processing. He sends any orders above FRW 1,000,000 for authorization from the purchasing director.

Receipts of goods from suppliers are processed by the warehouse team, who agree delivery to the purchase order, checking quantity and quality of goods and complete a sequentially numbered goods received note (GRN). The GRNs are sent to the accounts department every two weeks for processing.

On receipt of the purchase invoice from the supplier, an accounts clerk matches it to the GRN. The invoice is then sent to Pierre, who processes it for payment. The finance director is given the total amount of the payments list, which she authorizes and then processes the bank payments. Due to staff shortages in the accounts department, supplier statement reconciliations are no longer performed.

Required:

- (a) In respect of the purchases and payables system for Gakweto:
- (i) **Identify and explain five deficiencies;** (5 Marks)
 - (ii) **Recommend a control to address each of these deficiencies** (5 Marks)
 - (iii) **Describe a test of control that the auditor should perform to assess if each of these controls, if implemented, is operating effectively to reduce the identified deficiency.** (5 Marks)
- (b) **List any five most important control objectives of internal control relating to inventory.** (5 Marks)
- (Total: 20 Marks)**

End of question paper.

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