



CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATIONS

S3.4: AUDIT AND ASSURANCE

DATE: TUESDAY 26, AUGUST 2025

MARKING GUIDE & MODEL ANSWERS

SECTION A

Marking guide

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

Section A-Marks allocation	Marks
2 marks for each correct answer	2
Total marks for this section	20

Model Answer

QUESTION ONE

Correct Answer: A

Explanation:

- A is an adjusting event because it provides evidence of conditions (customer's financial difficulty) that existed at the reporting date.
- B, C, and D are non-adjusting events as they relate to conditions arising after the reporting date.

QUESTION TWO

Correct Answer: C

Explanation:

- C accurately reflects the three key objectives of internal control systems:
 - Reliability of financial reporting
 - Compliance with applicable laws and regulations
 - Effectiveness and efficiency of operations
- A is incorrect because internal control cannot eliminate all errors or fraud—only reduce the risk to an acceptable level.
- B is too narrow; financial reporting is broader than just tax compliance.
- D is incorrect; external auditors are independent and do not make management decisions.

Q3: Correct Answer: C

Explanation:

- C is correct: During the overall review, the auditor should perform analytical procedures and investigate any unusual or unexpected relationships (such as an unexplained profit increase). Discussions with management may provide insight or reveal necessary adjustments.
- A and B show negligence of professional scepticism.
- D is inappropriate—the responsibility lies with the external auditor, not internal audit.

Q4: Correct Answer: B

Explanation:

- B is correct: An auditor may be held liable for negligence to a third party if:
 1. A duty of care existed,
 2. The third party relied on the auditor's report,
 3. The auditor was negligent in performing their duties.
- A relates to fraud, not negligence.
- C is incorrect because not all shareholders are automatically owed a duty of care by the auditor.
- D is incorrect because following all professional standards typically protects the auditor from negligence claims.

Q5: Correct Answer: D

Explanation:

- D is correct: Owning shares in the client creates a self-interest threat and directly impairs independence and objectivity.
- A shows ethical behavior.
- B reflects professional responsibility and integrity.
- C indicates adherence to professional standards.

Q6: Correct Answer: C

Explanation:

- C is correct: Under ISA 250 (Consideration of Laws and Regulations), the auditor must understand the nature of the non-compliance, evaluate its potential effect, and communicate appropriately with management and those charged with governance.
- A is incorrect because the auditor has a duty to consider all material non-compliance.
- B may be required in extreme cases, but only after internal reporting and legal consultation.
- D is premature unless the auditor's position becomes untenable.

Q7: Correct Answer: C

Explanation:

- C is correct: While auditors aim to detect material misstatements, they are not responsible for detecting all fraud and errors. Audit planning helps in designing procedures to detect material fraud and error, not all.
- A, B, and D are all key objectives of audit planning under ISA 300, which emphasizes risk assessment, resource allocation, and efficient execution.

Q8: Correct Answer: D

Explanation:

- D is correct: A strong control environment involves ongoing monitoring, risk assessment, and system updates to ensure the information system is secure, reliable, and effective.
- A is incorrect—manual records increase risk; automation enhances control if properly managed.
- B is incorrect—unrestricted access weakens control and increases the risk of error or fraud.
- C is incorrect—management, not auditors, is responsible for designing and implementing internal controls.

Q9: Correct Answer: D

Explanation:

- D is correct: Auditors must investigate discrepancies, verify quantities through test counts, and assess whether the inventory system is reliable and inventory is fairly valued in accordance with IAS 2.
- A is incorrect because real-time systems still require verification.
- B is not sufficient—management’s explanation alone is not audit evidence.
- C ignores the issue and violates professional skepticism.

Q10: Correct Answer: B

Explanation:

- B is correct: Auditors must exercise professional skepticism, especially with unusual journal entries, and investigate to distinguish between error and possible fraud as per ISA 240.
- A is incorrect as it shows lack of professional skepticism.
- C is incorrect because auditors must consider fraud risk even if the misstatements are not yet material.
- D is premature; the auditor should first discuss with management and those charged with governance.

SECTION B

Question 11

Question	Description	Total Marks
Qn 11. a	Award 1 Mark per every stage involved in a structured approach to planning the audit. Maximum of 4 marks.	4
Qn 11. b	Award 2 Marks for a correct definition of performance materiality. Award 1 mark per each correct factors that may affect the identification of an appropriate benchmark. Maximum of 4 marks.	6
	Total marks	10

A)

Audit plan converts the audit strategy into a more detailed plan and includes the nature, timing and extent of audit procedures to be performed by engagement team members in order to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.

Audits need to be planned to ensure that (ISA 300):

- Appropriate attention is devoted to the important areas of the audit.
- Potential problems are identified (and resolved) on a timely basis.
- Work is completed effectively and efficiently.
- Appropriate staff are engaged on the audit team and, the proper tasks are assigned to the members of the audit team.
- Assisting with the direction and supervision of the audit team and review of their work.
- Assisting with the coordination of work done by experts.

A structured approach to planning will include the following stages:

Stage 1: Updating knowledge of the client and assessing risks

Stage 2: Ensuring that ethical requirements are met, including independence

Stage 3: Establishing the overall strategy in terms of the scope, timing and direction of the audit

Stage 4: Preparing the detailed audit approach

Stage 5: Making administrative decisions such as staffing and budgets

B)

Performance materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures.

Factors that may affect the identification of an appropriate benchmark

At the planning stage, auditors will set a 'value level' for planning materiality based on draft financial information available to them. However, this should be reviewed as the audit progresses and as any changes are made to the financial information

Generally, a percentage is applied to a chosen benchmark as a starting point for determining materiality for the financial statements as a whole. The following factors may affect the identification of an appropriate benchmark:

- Elements of the financial statements (eg assets, liabilities, equity, revenue, expenses)
- Whether there are items on which users tend to focus
- Nature of the entity, industry and economic environment
- Entity's ownership structure and financing Relative volatility of the benchmark

Question 12

Question	Description	Total Marks
Qn 12. a	Award 1 mark per each correct factor that may affect inherent risk. Maximum of 4 marks.	4
Qn 12. b	Award 1 mark for a correct factor that management should consider when making an assessment of company's going concern. Maximum of 3 marks.	3
Qn 12. c	Award 0.5 marks for a correct audit procedure that would be carried under review of long-term loans. Maximum of 3 marks.	3
	Total marks	10

A)

Risk of material misstatement in the financial statements

The risk of material misstatement in the financial statements falls into **two** general categories of risk: inherent risk and control risk.

Inherent risk is the susceptibility of an assertion to a misstatement and that could be material individually or when aggregated with other misstatements, before consideration of any related internal controls.

Inherent risk is the risk that items will be misstated due to characteristics of those items, such as the fact they are estimates or that they are important items in the accounts. The auditors must use their professional judgement and all available knowledge to assess inherent risk. If no such information or knowledge is available then the inherent risk is high.

Inherent risk is affected by many factors, including:

- The nature of the entity, for example, the industry it is in and the regulations it falls under
- The attitudes and experience of management
- The geographic spread of the operations
- The future business strategy of the entity

- The presence of complex wage structures, for example, a bonus- or commission-based salary structure
- The information system, for example, computer-based accounting systems

Inherent risk can also vary from account to account. Balances made up of complex items, such as inventory in a manufacturing company, portable assets in an engineering company and cash balances are generally more prone to high levels of inherent risk.

Control risk is the risk that a misstatement that could occur in an assertion and that could be material, individually or when aggregated with other misstatements, will not be prevented or detected and corrected on a timely basis by the entity's internal control.

B)

Under the 'going concern basis of accounting' the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

When management are making an assessment, **the following factors should be considered:**

- The degree of uncertainty about the events or conditions being assessed increases significantly the further into the future the assessment is made.
- Judgements are made on the basis of the information available at the time.
- 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.

C)

Non-current liabilities comprising loan stock and other loans repayable at a date more than one year after the period end.

Auditors will primarily try to determine:

- (a) Completeness: whether all non-current liabilities have been disclosed
- (b) Accuracy: whether interest payable has been calculated correctly and included in the correct accounting period
- (c) Presentation: whether non-current loans and interest have been correctly disclosed in the financial statements

The major complication for the auditors is that loan agreements frequently contain conditions with which the company must comply, including restrictions on the company's total borrowings and adherence to specific borrowing ratios.

The following are substantive procedures that should be performed under review of long-term loans acquired by the company.

-Obtain/prepare schedule of loans outstanding at the period end date showing, for each loan: name of lender, date of loan, maturity date, interest date, interest rate, balance at the end of the period and security.

- Compare opening balances to previous year's papers to confirm that these have been carried forward accurately.
- Compare balances to the general ledger and investigate any differences.
- Agree name of lender etc, to register of debenture holders or equivalent (if kept).
- Trace additions and repayments to entries in the cash book to confirm the accuracy of the closing balance.
- Confirm repayments are in accordance with loan agreement to determine whether there may be any unrecognised penalties.
- Examine cancelled cheques and memoranda of satisfaction for loans repaid to confirm that there are no unrecognised liabilities.
- Verify that borrowing limits imposed either by the company's constitution or by other agreements are not exceeded.
- Examine signed Board minutes relating to new borrowings/repayments to ensure that transactions are authorized.
- Obtain direct confirmation from lenders of the amounts outstanding, accrued interest and what security they hold.
- Verify interest charged for the period and the adequacy of accrued interest to confirm that interest is not misstated.
- Review restrictive covenants and provisions relating to default:
 - + Review any correspondence relating to the loan.
 - + Review confirmation replies for non-compliance.
 - + If a default appears to exist, determine its effect, and schedule findings.
- Review minutes and cash book to confirm that all loans have been recorded.
- Review draft financial statements to ensure that disclosures for non-current liabilities are correct and in accordance with accounting standards. Any elements repayable within one year should be classified as current liabilities.

SECTION C

QUESTION 13

Question	Description	Total Marks
Qn 13. a	Award 1 mark per each correct exception identified. And 1 mark for correct explanations. Maximum of 4 marks.	4
Qn 13. b	Award 1 mark for a correct crucial information to be included under asset register. Maximum of 6 marks.	6
Qn 13. c	Award 1 mark for a correct risk assessment procedure identified and 1 mark for a correct explanation. Maximum of 6 marks.	6
Qn 13. d	Award 1 mark for a correct explanation of test of controls and 1 mark for substantive procedures (2 marks in total). 1 mark for factor to consider when auditor decides to use test of controls and substantive procedures (2 marks in total). Maximum of 4 marks.	4
	Total marks	20

A)

Professional duty of confidentiality

Auditors have a professional duty of confidentiality. However, they may be compelled by law, or consider it desirable in the public interest, to disclose details of clients' affairs to third parties.

A member acquiring information in the course of professional work should neither use nor appear to use that information for his personal advantage or for the advantage of a third party.

In general, where there is a right (as opposed to a duty) to disclose information, a member should only make disclosure in pursuit of a public duty or professional obligation. A member must make it clear to a client that he may only act for him if the client agrees to disclose in full to the member all information relevant to the engagement.

The recognized exceptions to the duty of confidentiality are as follows:

Obligatory disclosure	Voluntary disclosure
If a member knows or suspects his client to have committed the offence of treason he is obliged to disclose all the information at his disposal to a competent authority. Suspicions of terrorism or money laundering also give rise to a duty to report.	In certain cases, voluntary disclosure may be made by the member where: <ul style="list-style-type: none">– Disclosure is reasonably necessary to protect the member's interests, for example to enable him to sue for fees or defend an action for, say, negligence.– Disclosure is authorised by statute, for example where in an action a member is required to give evidence or discovery of documents.– There is a public duty to disclose, say where an offence has been committed which is contrary to the public interest. Disclosure to non-governmental bodies (where statutory powers exist).

B)

Non-current asset register is a detailed record of all long-term assets owned by a business, such as property, plant, and equipment, as well as intangible assets.

The non-current asset register is a very important aspect of the internal control system. It enables assets to be identified, and comparisons between the general ledger, non-current asset register and the assets themselves provide evidence that the assets are completely recorded.

A typical non-current assets register will contain the following headings:

- Description of the asset
- Acquisition date
- Cost
- Depreciation
- Carrying value
- Funding method
- Disposal proceeds
- Disposal date
- Location held
- Supplier

The non-current asset register is useful to the auditor as, for example, entries in the register can be tested for existence by inspecting the physical asset. In the other direction physical assets can be agreed to the register to test whether the financial statements are complete in respect of non-current assets.

C)

The risk assessment procedures that the auditor must use to obtain the understanding of the entity going to be audited.

The auditor does not have to use all of these for each area, but the ISA requires that risk assessment procedures should, as a minimum, comprise a combination of procedures.

- Inquiries of management and others within the entity
- Analytical procedures
- Observation and inspection

The audit team and the engagement partner are also required to discuss the susceptibility of the financial statements to material misstatement. Judgement must be exercised in determining which members of the team should be involved in which parts of the discussion, but all team members should be involved in the discussion relevant to the parts of the audit they will be involved in.

Further, if it is a recurring audit, the auditors may have obtained a great deal of knowledge about the entity and the environment in the course of prior year audits. The auditor is entitled to use this information in the current year audit, but he/she must determine whether any changes in the year have affected the relevance of information obtained in previous years.

Inquiries of management and others within the entity

The auditors will usually obtain most of the information they require from staff in the accounts department, but may also need to make enquiries of other personnel, for example, internal audit, production staff or those charged with governance. Those charged with governance may give insight into the environment in which the financial statements are prepared. In-house legal counsel may help with understanding matters such as outstanding litigation, or compliance with

laws and regulations. Sales and marketing personnel may give information about marketing strategies and sales trends.

Analytical procedures

Analytical procedures are a useful tool in risk assessment. Analytical procedures provide guidance in this area. requires auditors to use analytical procedures during the risk assessment phase of the audit.

Analytical procedures consist of the evaluations of financial information made by a study of plausible relationships among both financial and non-financial data. Analytical procedures also encompass the investigation of identified fluctuations and relationships that are inconsistent with other relevant information, or deviate significantly from predicted amounts.

There are many sources of information available to the auditor at this stage including interim financial information, budgets, management accounts, information for prior periods and industry information.

All of this information can be used by auditors to help them understand areas of risk. For example, ratios (such as the receivables days, inventory turnover and the current ratio) can be calculated using information from the financial statements. The financial statements can also be compared to prior years, or similar firms in the same industry.

Budgets are helpful in indicating the expectations of the organization, and management accounting information is useful for variance analysis. Variance analysis involves looking at actual income and expenditure against the expected figures and determining the reasons for any variances between the two.

Analytical procedures such as these can be extremely helpful at the risk assessment and planning stages of an audit and help the auditor to identify the areas of greatest risk, and therefore the areas where the risk of misstatement in the accounts is highest. These are the areas where the most work will be required during the audit.

Observation and inspection

These techniques are likely to confirm the answers made to inquiries made of management. They will include observing the normal operations of a company, reading documents or manuals relating to the client's operations or visiting premises and meeting staff.

D)

Test of controls is an audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.

Substantive procedure is an audit procedure designed to detect material misstatements at the assertion level. Substantive procedures comprise tests of details and substantive analytical procedures.

Tests of controls

The ISA states that 'the auditor shall design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls if:

- (a) The auditor's assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively, or
- (b) Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.'

It may also be necessary to undertake tests of controls when it will not be possible to obtain sufficient appropriate audit evidence simply from substantive procedures. This might be the case if the entity conducts its business using IT systems which do not produce documentation of transactions.

In carrying out tests of controls, auditors must use inquiry, but must not only use inquiry. Other procedures must also be used. In testing controls, reperformance by the auditor will often be a helpful procedure, as will inspection.

When considering timing in relation to tests of controls, the purpose of the test will be important. For example, if the company carries out a year-end inventory count, controls over the inventory count can only be tested at the year end. Other controls will operate all year, and the auditor may need to test that controls have been effective all year.

Some controls may have been tested in prior audits and the auditor may choose to rely on that evidence of their effectiveness. If this is the case, the auditor must obtain evidence about any changes since the controls were last tested and must test the controls if they have changed. In any case, controls should be tested for effectiveness at least once in every three audits.

If the related risk has been designated a significant risk, the auditor should not rely on testing carried out in prior years, but should carry out testing in the current year.

Substantive procedures

The auditor must always carry out substantive procedures on material items. The ISA says 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'.

Substantive procedures fall into **two categories**: analytical procedures and tests of details.

The auditor must determine when it is appropriate to use which type of substantive procedure. Analytical procedures tend to be appropriate for large volumes of predictable transactions (for example, wages and salaries). Tests of details may be appropriate to gain information about account balances (for example, inventory or trade receivables), particularly verifying the assertions of existence and valuation.

Tests of details rather than analytical procedures are likely to be more appropriate with regard to matters which have been identified as significant risks, but the auditor must determine

procedures that are specifically responsive to that risk, which may include analytical procedures.

When and factors to consider

Tests of controls are used to evaluate the effectiveness of internal controls, while substantive procedures are used to detect material misstatements in financial statements.

Auditors decide which procedures to use based on the assessed level of risk and the effectiveness of the entity's internal controls.

If internal controls are strong, less substantive testing may be needed, but if controls are weak, more substantive procedures are required.

Tests of Controls

Purpose:

To assess the design and operating effectiveness of internal controls.

When to use:

When the auditor plans to rely on the entity's internal controls to prevent or detect material misstatements.

Timing:

Can be performed at an interim date or at period end, depending on the auditor's objective and the period of reliance.

Substantive Procedures:

Purpose:

To obtain direct evidence about the accuracy and completeness of financial statement balances and transactions.

When to use:

When the auditor assesses a higher risk of material misstatement or when internal controls are not effective.

Timing:

Can be performed at an interim date or at period end, depending on the assessed risk and the nature of the account balance.

QUESTION 14

Question	Description	Total Marks
Qn 14. a	Award 1 mark per each correct reason why auditors use working papers to record their work (4 marks), and 2 marks for why it is necessary for auditors to record all their work. Maximum of 6 marks.	6
Qn 14. b	Award 1 mark for a correct explanation of sufficiency and 1 mark for appropriateness of audit evidence (2 marks). 1 mark for a correct reason why an auditor can only give reasonable assurance that the financial statements are free from misstatement (5 marks). Maximum of 7 marks.	7
Qn 14. c	Award 1 mark for a correct benefit of using audit software and 1 mark for a correct difficulty identified. Maximum of 7 marks.	7
	Total marks	20

A)

All audit work must be documented: the working papers are the tangible evidence of the work done in support of the audit opinion. Audit documentation provides guidance, and requires that audit documentation is prepared on a timely basis.

Audit documentation is the record of audit procedures, relevant audit evidence obtained and conclusions reached in connection with the performance of the audit. The term 'working papers' is also used sometimes. Working papers may be in the form of data stored on paper, film, electronic media or other media.

The reasons why auditors use working papers to record their work, and why it is necessary for auditors to record all their work, **are as follows:**

- (a) The reporting partner needs to be able to satisfy himself that work delegated by him has been properly performed. The reporting partner can generally only do this by having available detailed working papers prepared by the audit staff who performed the work.
- (b) Working papers will provide, for future reference, details of audit problems encountered, together with evidence of work performed and conclusions drawn in arriving at the audit opinion. This can be invaluable if, at some future date, the adequacy of the auditors' work is called into question in the event of litigation against them by either the client or some third party.
- (c) Good working papers will not only assist in the control of the current audit, but will also be invaluable in the planning and control of future audits.
- (d) The preparation of working papers encourages the auditors to adopt a methodical approach to their audit work, which in turn is likely to improve the quality of that work.

B)

Sufficiency is the measure of the quantity of audit evidence. The quantity of evidence required will be affected by the level of risk in the area being audited, and the quality of evidence obtained.

Appropriateness is the measure of the quality or relevance and reliability of the audit evidence. Auditors are essentially looking for enough reliable audit evidence. Audit evidence usually indicates what is probable rather than what is definite (is usually persuasive rather than conclusive) so different sources are examined by the auditors. Not all sources of evidence will be examined because auditors can only give reasonable assurance that the financial statements are free from misstatement, for the following reasons:

- (a) Auditors do not verify every item in the accounting records. This would be too time-consuming and not effective in a cost-benefit sense. Instead for many tests they review a sample of items in the population being tested. We shall look at sampling in more detail in a later unit.
- (b) The limitations of accounting systems and internal control. The auditors will be looking to rely on the accounting system, and may be looking to rely on internal control. The accounting records may not give the level of detail the auditors require, or the accounting systems may be operated by staff who do not have a full understanding of the system.
- (c) The possibility that directors or staff may not tell the truth or collude in fraud.
- (d) The fact that audit evidence indicates what is probable rather than what is certain. Auditors

have to make judgements, based on the available evidence, on whether to include certain items in the accounts, for example provisions against specific debts. They will also have to decide on the reasonableness of estimates.

- (e) Auditors will often not be qualified to make judgements themselves on certain audit evidence. They may need to call on expert assistance. Experts are covered in the next unit.

Auditors' judgement as to what is sufficient, appropriate audit evidence is influenced by a number of factors.

- Risk assessment
- The materiality of the item being examined
- The experience gained during previous audits
- The source and reliability of information available

C)

Benefits of using audit software

- (a) Audit software can perform calculations and comparisons more quickly than those done manually.
- (b) Audit software makes it possible to test more transactions than when simply manually scanning print outs.
- (c) Audit software may allow the actual computer files (the source files) to be tested from the originating program, rather than print outs from spool or previewed files which are dependent on other software (and therefore could contain errors or could have been tampered with following export).
- (d) Using audit software is likely to be cost-effective in the long-term if the client does not change its systems.

Difficulties of using audit software

- (a) The costs of designing tests using audit software can be substantial as a great deal of planning time will be needed in order to gain an in-depth understanding of the client's systems so that appropriate software can be produced.
- (b) The audit costs in general may increase because experienced and specially trained staff will be required to design the software, perform the testing and review the results of the testing.
- (c) If errors are made in the design of the audit software, audit time, and hence costs, can be wasted in investigating anomalies that have arisen because of flaws in how the software was put together rather than by errors in the client's processing.
- (d) If audit software has been designed to carry out procedures during live running of the client's system, there is a risk that this disrupts the client's systems. If the procedures are to be run when the system is not live, extra costs will be incurred by carrying out procedures to verify that the version of the system being tested is identical to that used by the client in live situations.

QUESTION 15

Question	Description	Total Marks
Qn 15. a	Award 0.5 marks per each correct sampling method identified and 0.5 marks for each sampling method identified and well explained. Maximum of 4 marks.	4
Qn 15. b	Award 1 mark for a correct objective receivables and sales Maximum of 6 marks.	6
Qn 15. c	Award 1 mark for an important objective of internal control relating to Non current assets. Maximum of 4 marks.	4
Qn 15. d	Award 1 mark for a correct audit procedure to confirm the completeness and accuracy of the reported bank balances. Maximum of 6 marks.	6
	Total marks	20

A)

There are a number of methods available to an auditor to help him select a sample:

(a) Random selection uses random number tables or computerized generator to select the sample.

(b) Systematic selection involves selecting items using a constant interval between selections, the first interval having a random start. When using systematic selection auditors must ensure that the population is not structured in such a manner that the sampling interval corresponds with a particular pattern in the population.

(c) Haphazard selection is where an auditor himself selects items 'at random'. It may be an alternative to random selection provided auditors are satisfied that the sample is representative of the entire population. This method requires care to guard against making a selection which is biased, as they may not be representative. It should not be used if auditors are carrying out statistical sampling.

(d) Sequence or block selection. Sequence sampling may be used to establish whether certain items have particular characteristics. Sequence sampling may however produce samples that are not representative of the population as a whole, particularly if errors only occurred during a certain part of the period, and hence the errors found cannot be projected onto the rest of the population.

B)

The most important objectives of internal control relating to receivables and sales are as follows.

Feature	Objectives
Ordering and granting of credit	To ensure that: <ul style="list-style-type: none">• Goods and services are only supplied to customers with good credit ratings• Customers pay promptly• Orders are recorded correctly• Orders are fulfilled

Feature	Objectives
Dispatch and invoicing	To ensure that: <ul style="list-style-type: none"> • All despatches of goods are recorded • All goods and services sold are correctly invoiced • All invoices raised relate to goods and services that have been supplied by the business • Credit notes are only given for valid reasons
Recording, accounting and credit control	To ensure that: <ul style="list-style-type: none"> • All sales that have been invoiced are recorded in the general and sales ledgers • All credit notes that have been issued are recorded in the general and sales ledgers • All entries in the sales ledger are made to the correct sales ledger accounts • Cut-off is applied correctly to the sales ledger • Potentially irrecoverable debts are identified

C)

The most important objectives of internal control relating to non-current assets are to ensure:

Non-current assets are properly accounted for and recorded.

- Security arrangements over non-current assets are sufficient.
- Non-current assets are maintained properly.
- Non-current asset acquisitions are authorized.
- Non-current asset disposals are authorized and proceeds of disposals are accounted for.
- Depreciation rates are reasonable.
- All income from income-yielding non-current assets is collected.

D)

The following are the principal audit procedures relevant to cash and bank balances. And can be applied to all bank accounts:

- Obtain standard bank confirmations from each bank with which the client conducted business during the audit period to confirm completeness, existence and valuation of balances.
- Verify arithmetic of bank reconciliation to ensure accuracy.
- Trace cheques/transactions shown as outstanding from the bank reconciliation to the cash book prior to the year end, and to the after-date bank statements, and obtain explanations for any large or unusual items not cleared at the time of the audit to confirm cut-off correctly applied.
- Compare cash book(s) and bank statements in detail for the last month in the year, and trace items outstanding at the reconciliation date to bank reconciliations to provide evidence that all reconciling items have been identified.
- Review bank reconciliation previous to the year-end bank reconciliation and confirm that the items are cleared in the last period or taken forward to the period end bank reconciliation.
- Obtain satisfactory explanations for all items in the cash book for which there are no corresponding entries in the bank statement and vice versa.
- Verify contra items appearing in the cash books or bank statements with original entry.

- Verify that uncleared banking's are paid in prior to the period end to confirm cut-off correctly applied.
- Examine all lodgements in respect of which payment has been refused by the bank. Ensure that they are cleared on representation or that other appropriate steps have been taken to effect recovery of the amount due. This provides evidence of valuation.
- Verify balances per the cash book according to the bank reconciliation with cash book, bank statements and general ledger. This provides evidence of correct valuation and accuracy.
- Verify the bank balances with reply to standard bank letter.
- Scrutinize the cash book and bank statements before and after the end of the reporting period for exceptional entries or transfers which have a material effect on the balance shown to be in-hand.
- Identify whether any accounts are secured on the assets of the company as this may require disclosure.
- Consider whether there is a legal right of set-off of overdrafts against positive bank balances as this may affect presentation.
- Determine whether the bank accounts are subject to any restrictions by making enquiries of management as this may affect presentation.
- Review draft accounts to ensure that disclosures for bank are complete and accurate and in accordance with accounting standards.

Each procedure contributes to confirming the completeness, existence, accuracy, and proper presentation of the bank balances reported in the financial statements.

End of Marking Guide and Model Answers