



**CERTIFIED PUBLIC ACCOUNTANT
INTERMEDIATE LEVEL EXAMINATIONS**

S3.4: AUDITING

DATE: TUESDAY 25, FEBRUARY 2025

SECTION A

Marking guide

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

Basically, post balance sheet events are categorised into two (adjusting and non-adjusting events). With regard to above post balance sheet event, it needs an adjustment before issue of the final financial statements. It means without adjusting the item, the financial statements will no reflect true and fair view.

Answer A is irrelevant, because whether an item is adjusting or non-adjusting, there is a certain treatment in the financial statements.

Answer B is a non-adjusting event because does not provide any additional evidence to an auditor.

Answer D is wrong because a management letter addresses weaknesses in the internal control systems and recommendations.

QUESTION TWO

The correct Answer is C

The methods of recording the internal control systems are: -system notes, checklist, ICQ, flowcharts, observation and ICEQ.

Answer A – Analytical review is a substantive procedure.

Answer B – Analytical review, Substantive tests and walk through tests are all substantive procedures.

Answer D – This is an irrelevant answer as the right answer is C.

QUESTION THREE

The correct Answer is D

This is because the internal control systems are examined before the start of an audit and not during the final review.

Answer A, B and C contains what is to be done by an auditor during the final review.

QUESTION FOUR

The correct Answer is B

This is because there is no contractual obligation between the auditor and third parties.

Answer A, B and C are all the requirements required for the third party to proof before an auditor can be held liable for negligence.

QUESTION FIVE

The correct Answer is D

Advocacy means when the auditor is dealing with the client shares in the stock exchange or he has any other interest in dealings of the company such loans and debentures or any other stock.

Answer A – This is not a threat to the auditor independence.

Answer B – This is a self-review threat which is against the professional ethics of an auditor.

Answer C – This is as familiarity threat which also is a threat to the auditor's independence.

QUESTION SIX

The correct Answer is A

Currently, the annual turnover threshold for required certification of financial statements by qualified professionals is 400 million Rwandan francs and above.

Answer B, and D are irrelevant to the question because those sales thresholds do not exist in anywhere.

For answer C – Those business whose sales turnover are below four hundred million Rwandan francs, it's not mandatory for their certified financial statements to be filed with RRA.

QUESTION SEVEN

The correct Answer is D

Audit planning" means developing a general strategy and a detailed approach for the expected nature, timing and extent of the audit.

Erick and Nicolle gave the correct benefits of an audit plan. Other benefits of audit planning include:

It helps the auditor to review an audit work.
It helps in proper allocation of audit resources.
It helps to avoid misunderstandings with the client.
It helps to ensure that potential problems are promptly identified.
It helps to know the scope of an audit by an auditor.
It helps to carry out the audit work smoothly and in a well-defined manner.
Answers A, B and C are not correct.

QUESTION EIGHT

The correct Answer is C

An IT control is a procedure or policy that provides reasonable assurance that the information technology (IT) used by an organization operates as intended, that data is reliable and that the organization is in compliance with applicable laws and regulations.

Answer A –Talks about the controls over the accounting system of an organization.

Answer B –Talks about an audit trail.

Answer D –It also talks about an audit trail

QUESTION NINE

The correct Answer is D

When closing inventory is overstated, it means cost of sales will be understated because closing inventory is deducted from cost of sales. By understating cost of sales, gross profits will be overcasted.

Answer B – Inventory will be overcast but cost of sales will not be overstated, hence wrong.

Answer C – gross profit will not be understated, it will be overstated

Answer A –Payables are not affected by closing inventory.

QUESTION 10

The correct Answer is D

Carry over fraud is also known as Teaming and Lading fraud which is committed on trade receivables of an organization by cashiers. Its where a cashier misappropriates money from receivables.

Answer A – This is not a fraud.

Answer B – This a fraud of including non-existing workers in the payroll.

Answer C – This is a general fraud perpetrated over cash but not specific which cash.

SECTION B

QUESTION 11

Marking guide

Q/NO	Criteria for awarding the marks	Marks
11. a)	For any correct point stated award 0.5 mark and correct explanation award 0.5 mark (max 1 mark per each valid point)	5
11. b) i.	For correct definition of the term award 2 marks (max 2)	2
11. b) ii	For each correct stated point award 1 mark (max 1 per each valid point)	3
Total		10

Model Answer

a) Benefits of audit planning

1. **Enables an auditor to make maximum utilization of resources:** An audit plan will enable an auditor to allocate the available resource in an optimum manner. I.e. time, audit staff etc.
2. **Facilitates an audit review:** - An audit plan will enable a reviewer to know areas covered and those which have not been covered.
3. **Enables an auditor to direct more resource to high-risk audit areas:** Since the auditor incorporates the risk during planning, he can assign more qualified audit staff to these areas.
4. **Enable an auditor to meet his client datelines:** An audit plan will enable an auditor to plan adequately for his clients.
5. **It ensures all areas of an audit has been covered:** Proper planning will enable an auditor to plan for areas of an audit.
6. **Identification of potential problem:** Proper audit planning will facilitate identification and rectification of potential problems timely.
7. Facilitates direction and supervision of an audit.
8. Assist in coordination of work done by experts.

b) i) **Materiality** is defined as the amount or nature of an omission or misstatement in the financial statement that will influence the judgment of a reasonable person relying on the said financial statements to make a decision.

Or

The level of misstatement that affects the decision users of financial statements.

ii) THREE reasons why an auditor should assess materiality in an audit

1. To decide of how many items to examine
2. As to whether use sampling techniques
3. The level of error that is likely to lead to a modified audit opinion
4. To form audit opinions on the financial statements
5. It's a requirement by ISA

QUESTION 12

Marking guide

Q/NO	Criteria for awarding the marks	Marks
12. a)	For each stated source of evidence award 0.5 mark and correct explanation 0.5 mark (max 1 per each valid point)	4
12. b)	For each identified matter award 0.5 mark and explanation 0.5 mark (max 1 per each valid point)	3
12. c)	For each stated objective award 1 mark (max 1 per each valid point)	3
Total		10

Model Answers

a) Sources of audit evidence the auditor might use as part of risk assessment procedure:

1) **Analytical reviews:** Analytical procedures consist of evaluations of information through analysis of plausible relationships among data.

2) **Confirmation:** Confirmations consist of contacting a third party (say, one of your company's banks) to confirm information such as the closing balance recorded in financial statements.

3) **Reperformance:** Repperformance evaluates internal controls to check for deficiencies and determine control risk.

4) **Recalculation:** Recalculation consists of checking the mathematical accuracy of documents or records

5) **Observation:** In observation, auditors observe various aspects of entity's operations or processes

6) **Inquiry:** Inquiries involve seeking information from knowledgeable persons within or outside your enterprise. Auditors conduct inquiries t

7) **Inspection:** Inspection involves examining documents or records

b) Matters that might cast doubt on the going concern of Rwama Ltd:

1) **Loss of key employees without replacement:** Where key employees of the company are moving out to other companies.

2) **Discontinued of dividends payment:** A company which has stopped paying dividends to its shareholders.

3) **Loss of key customers:** Where most customers have stopped buying client goods.

4) **Loss of key suppliers:** Where check completeness there is a key loss of supplier or change of suppliers from credit to cash on delivery.

5) **Introduction of new check completeness taxes:** In case check completeness there is changes in government taxes affecting the client business.

c) Objectives of audit of non-current liabilities by an auditor

1) To confirm their existence

2) To examine rights and obligation

3) To confirm their valuation

4) To check presentation and disclosure

5) To check completeness

SECTION C

QUESTION 13

Marking Guide

Q/NO	Criteria for awarding the marks	Marks
13. a)	For each correct point stated award 1 mark (max 1 per each valid point)	4
13. b)	For each correct objective stated award 1 mark (max 1 per each valid point)	6
13. c)	For each correct reason stated award 1 mark (max 1 per each valid point)	5
13. d)	For each correct way stated award 1 mark (max 1 per each State FOUR elements of internal control valid point)	5
Total		20

Model Answers

a) Circumstances under which an auditor may be compelled to disclose the confidential information of the client:

- 1) If he has obtained the consent from the client: -where the client allows the auditor to disclose or publish on his behalf
- 2) In case of exercising his professional duty/duty: - where the auditor is exercising his professional duty and required by professional ethics.
- 3) In case of legal requirement: -where it's a court of which is compelling the auditor to provide evidence against the company.
- 4) where the auditor is sued for negligence: -where the auditor is sued for negligence, he can produce the working papers as evidence of work done.

b) Audit objectives, to be achieved by an auditor when auditing tangible non-current assets of the company:

C-Completeness

A-Authorization

V-Valuation

E- Existence

B-Benefit

O-Ownership

R-Recording

D-Disclosure and presentation

Completeness: To check whether there are no omissions in all transactions relating to tangible non-current assets.

Authorization: To check there is proper authorization on acquisition of assets

Valuation: To assess whether assets are properly valued and recognized in the financial statements

Existence: To check whether the asset physically exist in the client premises

Benefit: Assess as to whether the non-current assets are used to benefit the client business

Ownership: To check under what names are non-current assets registered in title deed and yellow cards

Recording: To check whether there is proper recording of non-current assets in the books of accounts

Disclosure and presentation: Check as to whether assets and their components are properly presented and disclosed in financial statements

c) Reasons why an auditor might need to understand the entity and its environment before undertaking an audit assignment

1. To help the auditor in risk assessment
2. To help an auditor in planning an audit
3. To facilitate the auditor gathering audit evidence
4. To detect error at an early stage during an audit
5. To understand the regulatory compliance of the client
6. To enable an auditor, understand materiality threshold of the client
7. Enable an auditor to establish an overall audit strategy
8. Reduces an audit risk

d) Ways in which an auditor can incorporate the assessed risks in the client business during an audit planning

1. By developing audit procedures responding to the risks identified
2. Discussing with the engagement team during planning
3. Directing more effort and resources towards risk areas
4. By determining the level of materiality during planning
5. By changing the audit approach

QUESTION 14

Marking Guide

Q/NO	Criteria for awarding the marks	Marks
14.a)	Stating the correct reason award 0.5 mark and correct explanation award 0.5 mark (max 1 per each valid point)	6
14.b) i.	For the correct definition award 2 marks (max 2)	2
14.b) ii.	For the correct factor stated award 1 mark and correct definition award 1 mark (max 2)	6
14.c)	For each correct control stated award 1 mark (max 1 per each valid point)	6
Total		20

Model Answers

a) Benefits of documenting the audit work

1. **Evidence of work done:** In case of a suit, audit working papers can act as an evidence of work done by an auditor.
2. **To form an opinion:** Documented audit evidence will enable an auditor to reach a conclusion on the financial statements of accompany.
3. **Evidence of work done by juniors:** Documented audit evidence provides an assurance that the work delegated to junior has been properly done.
4. **Enables quality control of an audit:** Audit documentation will enable final review of an audit.
5. Provides a means of retaining records of matters of continuing importance during audit tenure.
6. Facilitates supervision of an audit work
7. Avoids duplication of already work done

b) i. **Audit evidence** is any information collected by an auditor to assist him reach into a conclusion on the financial statements of the client.

ii. Factors that could influence the reliability of audit evidence

1. Evidence obtained by the auditor himself are considered to be more reliable than evidence from a third party.
2. Evidence obtained from third party is considered to be more reliable than evidence from within the client.
3. Written evidence is considered to be more reliable than oral evidence
4. Evidence from within the client is only considered reliable if the ICS is strong.

c) Controls that the management Rwanda Mart Ltd should consider

1. **Physical security:** It involves the measures used to secure physical devices and facilities that store sensitive information.
2. **Use back-up data:** Backing up data regularly is an important aspect of data protection, as it ensures that data is preserved in the event of data loss or corruption
3. **Implementation of access controls:** Access control is a method of restricting access to sensitive information to only authorized users.
4. **Improve network security:** Network security refers to the measures used to protect information and assets stored on computer networks from unauthorized access, theft, or damage.
5. **Encryption of data:** It involves converting sensitive information into a coded form, making it unreadable to anyone without the proper decryption key.
6. **Regular update of the software:** Regular software updates are essential for maintaining the security and functionality of our devices and systems.

QUESTION 15

Marking Guide

Q/NO	Criteria for awarding the marks	Marks
15.a)	Stating a correct circumstance award 0.5 mark and correct explanation award 0.5 mark (max 1 per each valid point)	4
15.b)i.	For the correct definition award 1 mark (max 1)	1
15.b)ii.	For correct element stated award 1 mark (max 1 per each valid point)	4
15.c)	For the correct method award 0.5 mark and correct explanation award 0.5 mark (max 1 per each valid point)	4
15.d)	For correct procedure stated award 0.5 mark and correct explanation award 0.5 mark (max 1 per each valid point)	4
15.e)	For each correct audit procedure award 0.5 mark (max 0.5 per each valid point)	3
Total		20

Model Answers

a) Circumstances where audit sampling may be ideal:

1. Where the items in a population are homogenous: In case where the items to be examined have the same characteristics.
2. Where items to be examined are too many: In case of numerous transactions, 100% audit cannot be ideal.
3. In case of limited time and other audit `resources: -where the auditor has several clients with similar year ends and has no enough audit staff.
4. Where the risk of material misstatements is considered to be low
5. Where a 100% will be boredom and tiresome

b) i. **An internal control** is a process that ensures the integrity of financial and accounting information and prevent errors and frauds. It ensures reliability of information, accuracy and timely. It also ensures compliance with applicable laws, regulations, policies and procedures.

b) ii. **Elements of internal control**

1. Control environment:
2. The entity's risk assessment process
3. The information system
4. Control activities
5. Monitoring of controls

c) Methods which can be used to document the sales system:

1. Narrative notes

Narrative notes consist of a written description of the system; they would detail what occurs in the system at each stage and would include any controls which operate at each stage.

2. ICQ

Internal control questionnaires (ICQ) contain a list of questions used to assess whether controls exist.

3. Flowcharts

Flowcharts are a graphic illustration of the internal control system for the sales system which demonstrates the sequence of events and standard symbols are used to signify controls or documents.

4. ICEQ

Internal control evaluation questionnaire is used to test the effectiveness of the controls.

d) Substantive procedures you would perform to obtain sufficient and appropriate audit evidence relating to above revaluation:

1. Obtain the PPE schedule of all the revalued items of PPE and check the accuracy to the financial statements
2. Consider and evaluate the competence of the valuer.
3. Ascertain the independence of the valuer
4. Agree the revalued amount to valuation statement provided
5. Review as to whether the relevant reporting standards were followed
6. Check whether the amount of revaluation have been included in the PPE register
7. Recalculate the total revaluation and agree with the one recorded in the books
8. Check as to whether depreciation charge is properly accounted for on revaluation by re – calculating.

e) Audit procedures to verify Bank balances: -

1. Auditors will reconcile the client's cash records with the bank statement to ensure that the balances match. Any differences should be investigated and resolved.
2. Auditors may send confirmation requests directly to the client's banks to confirm the balances of accounts held by the client. This helps ensure that the balances reported by the client are accurate.
3. Auditors will review the client's bank statements for a certain period to look for any unusual transactions, discrepancies, or unauthorized activities.

4. Auditors will perform cutoff tests to ensure that transactions are recorded in the correct period and that there are no outstanding deposits or withdrawals that should be recorded in the current period.
5. Auditors will perform analytical procedures on bank balances to assess the reasonableness of reported balances and identify any significant fluctuations or anomalies that may require further investigation.
6. In some cases, auditors may physically visit the client's bank to verify the existence of bank accounts and balances, especially in the case of significant account balances.
7. Ensure accurate recording of bank balances to audit working papers.

End of Marking Guide and Model Answers