



ICPAR
Unlimited possibilities

CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATIONS

S3.4: AUDIT AND ASSURANCE

DATE: TUESDAY 25, FEBRUARY 2025

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 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

Millennium Limited has been a major customer of the products of Bella Beauty Limited. Most of the products are supplied to Millennium Limited on credit. On 10th January 2024, Millennium Limited was in the process of liquidation and its certain that it will not be in the position to pay the substantial amount due to Bella beauty. This amount is included in the books of Bella Ltd for the year ended 31st December 2023.

How should this be treated in the financial statements of Bella Ltd for the year ended 31st December 2023?

- A No adjustment or disclosure is required.
- B Disclose as a foot note in the financial statements.
- C Adjust the financial statement of the year ended 2023, and disclose in the notes to financial statements.
- D The auditor should address the matter in the management letter only.

(2 Marks)

QUESTION TWO

During an auditing and assurance lesson, Mr Mugisha asked four students to outline four methods of documenting internal control systems, students replied as follows:

1. Earnest: Narrative notes, checklist, analytical review and questionnaires.
2. Mary: Narrative notes, substantive tests, questionnaires and analytical review.
3. John: Narrative notes, checklist, flowcharts and internal control questionnaire.
4. Nadine: Internal control questionnaire, narrative notes, analytical review and walk-through tests.

Among the above students who gave the correct answer?

- A Earnest
- B Mary and Nadine
- C John
- D None of the above

(2 Marks)

QUESTION THREE

An overall review of the financial statements is performed by the auditors at the completion phase of the audit, after having collected audit evidence about individual items or groups of items.

Which one of the following is not among the principal considerations by an auditor when carrying out such a review?

- A Whether the financial statements reflect the relevant information and explanation obtained during the course of an audit.
- B The potential impact of aggregate uncorrected misstatements on the financial statements.
- C Whether there are any factors which may affect the presentation or disclosure in the financial statements.
- D Examine the strength of the internal control systems before putting reliance on them.

(2 Marks)

QUESTION FOUR

Which one of the following is not among the requisites for a third party to successfully sue an auditor for negligence?

- A Proof of duty of care
- B Breach of contract
- C Proof of negligence
- D Proof for damages

(2 Marks)

QUESTION FIVE

An advocacy threat would arise if the auditor of a client company were to do which of the following?

- A Acts on behalf of the competitor company
- B Prepare and audit the financial statements
- C He has close relatives in the client company
- D Deals in the shares of the client company

(2 Marks)

QUESTION SIX

Pursuant to the laws of taxation in Rwanda, companies are required to have their financial statement audited by approved professionals by Rwanda revenue authority.

Which companies are supposed to submit audited financial statements to Rwanda revenue authority?

- A Companies whose annual turnover is four hundred million Rwandan francs and above.
- B Companies whose annual turnover is three hundred million Rwandan francs and above.
- C Companies whose annual turnover is less than four hundred million Rwandan francs.
- D Companies whose annual turnover is nine hundred million Rwandan francs and above.

(2Marks)

QUESTION SEVEN

Four students were asked to name benefits of adequate planning in an audit. They answered as bellow:

Nzayikunda: To design audit programs.

Nicolle: To facilitate review of audit work.

Aline: To ensure that a modified audit opinion is not given.

Erick: To give an attention to important areas of an audit.

Among them who gave a correct answer?

- A Nzayikunda
- B Eric and Nzayikunda
- C Aline
- D Erick and Nicolle

(2Marks)

QUESTION EIGHT

Which of the following statements best describes the general IT controls?

- A Systems designed to ensure integrity of the accounting records
- B Controls over recording, processing and reporting of transactions
- C Controls over system access, data records, program development and maintenance
- D Controls over transaction cycles

(2Marks)

QUESTION NINE

You are one of the audit team of Rwanda Pitcoin limited, a company that deals with manufacturing and selling of detergents. You have been tasked with audit of inventory by the Audit Manager. During physical count of inventory, you discovered that one section of inventory item was counted twice.

Which of the following misstatements would arise out of the above error?

- A Payable will be overstated and gross profit overstated.
- B Inventory will be overstated and cost of goods sold overstated.
- C Gross profit will be understated.
- D Inventory will be overstated and gross profit overstated.

(2Marks)

QUESTION 10

Auditing is an independent examination of book of accounts by an independent auditor to give an opinion as to whether the financial statements are free from material misstatement.

The type of a fraud where money from trade receivables is misappropriated due to defective internal control system, is known as?

- A Non-banking of cash
- B Dummy workers
- C Misappropriation of cash
- D Carry over

(2 Marks)

SECTION B

QUESTION 11

a) ISA 300 *planning an Audit of financial statements*, provides guidance to auditors. Planning an audit involves an auditor establishing the overall audit strategy for the engagement and developing an audit plan. Audit planning benefits the audit of financial statements in several ways.

Required:

Explain five benefits of audit planning. (5 Marks)

b) ISA 320 *Materiality in planning and Performing an audit* provides guidance to auditors. The calculation and estimation of materiality should be based on auditor's experience and judgement.

Required:

i) Define the term "Materiality". (2 Marks)

ii) State three reasons why an auditor should assess materiality in an audit. (3 Marks)

(Total: 10 Marks)

QUESTION 12

a) International Standard on Auditing (ISA) 315, *'Identifying and assessing the risks of material misstatements through understanding the entity and its environment'*, requires an auditor to perform risk assessment procedures, which require obtaining deep understanding of the entity and its environment, including the internal controls.

Required:

Explain four sources of audit evidence the auditor might use as part of risk assessment procedure. (4 Marks)

b) You are an audit assistant at QP and associates, one of the audit firms in Rwanda. Your firm has been appointed to audit Rwama Ltd, a company dealing with manufacturing and distribution of pharmaceutical items for the year ended 31st December 2023. During the past two years, a competitor who has been producing and distributing the same items at a low-cost emerged and took up a substantial number of Rwama Ltd customers. You are also informed that the main supplier of Rwama Ltd has been declared bankrupt by a court of law.

Due to the market competition; the company has not been able to pay dividends to its shareholder for the past two years. Also, during the year under review, some top level managers resigned. The company has not been able to replace them due to specialized nature of their roles. You have also been alerted that the government is in a process to introduce taxes on all locally manufactured pharmaceutical items.

Required:

In line with the information provided above, **explain three matters that cast doubt on the going concern of Rwama Ltd.** (3 Marks)

c) State three objectives of audit of non-current liabilities by an auditor. (3 Marks)

(Total: 10 Marks)

SECTION C

QUESTION 13

a) Auditors have a professional duty of confidentiality. However, there are circumstances under which they may be compelled by law or duty to disclose the information of the client.

Required:

Explain four circumstances under which an auditor may be compelled to disclose the confidential information of the client. (4 Marks)

b) Using the relevant assertions, **State six audit objectives, to be achieved by an auditor when auditing tangible non-current assets of the company.** (6 Marks)

c) **Highlight five reasons why an auditor might need to understand the entity and its environment before undertaking an audit assignment.** (5 Marks)

d) ISA 330, *Auditors responses to assessed risks* requires an auditor to obtain sufficient and appropriate audit evidence regarding the assessed risks of material misstatements, through designing and implementing appropriate responses to those risks.

Required:

Outline five ways in which an auditor can incorporate the assessed risks in the client business during an audit planning. (5 Marks)

(Total: 20 Marks)

QUESTION 14

a) ISA 230 *Audit Documentation*, requires auditors to prepare audit documentation for an audit of financial statements on a timely basis.

Required:

Describe six benefits of documenting the audit work. (6 Marks)

b) International standard on auditing ISA 500 *Audit Evidence*, requires the auditor to obtain sufficient and appropriate audit evidence to support his conclusion on test of transactions and therefore his report. Appropriate evidence is a reliable evidence.

Required:

i) **What do you understand by the term, “Audit Evidence”.** (2 Marks)

ii) **Explain three factors that could influence the reliability of audit evidence.** (6 Marks)

c) Rwanda Mart Ltd is in the process of implementing a computer-based accounting system. As their auditor, you have been requested to advise on the appropriate controls to be implemented to prevent un authorised changes to the data files.

Required:

Suggest six controls that the management Rwanda Mart Ltd should consider. (6 Marks)

(Total: 20 Marks)

QUESTION 15

a) In the context of ISA 530 *Audit Sampling*, Audit sampling is the application of audit procedures to less than 100% of items within a population of audit relevance, such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population. Audit sampling can be applied using either a statistical or a non-statistical approach.

Required:

Explain four circumstances where audit sampling may be ideal. (4 Marks)

b) The auditor must understand the information system and the control environment in order to determine the audit approach.

Required:

i) Define the term “Internal control”. (1 Mark)

ii) State four elements of internal control. (4 Marks)

c) You are an internal auditor of One Point Ltd. The company produces fruit juices which are supplied to large and small food retailers. The management of One Point Ltd have concerns about the effectiveness of their sales system and have asked you as an internal auditor to document and review the sales system.

Sales and dispatch system

Sales orders are mainly placed through One Point Ltd website but some are made via telephone. Online orders are automatically checked against inventory records for availability through telephone orders, however they are checked manually by order clerks after the call.

As the company is expanding, customers are able to place online orders which will exceed their agreed credit limit by 10%. Online orders are automatically forwarded to the dispatch and accounts department.

Due to the expansion of the company, and as there is a large number of sale invoices, extra accounts staff have been asked to help out temporarily with producing the sales invoices. Normally it is only two sales clerks who produce the sales invoices.

Required:

In line with the above information, **explain four methods for documenting the sales system.**

(4 Marks)

d) You are an audit senior at Yolanda and Associates. During the year ended 31st December 2023, you have been assigned the audit of non-current assets of PK Ltd, a logistics company located at Magerwa. It has come to your knowledge that during the year, the company's Property, Plant and Equipment (PPE) were revalued by a professional valuer.

Required:

Explain any four substantive procedures you would perform to obtain sufficient and appropriate audit evidence relating to above revaluation.

(4 Marks)

e) **Outline six audit procedures to verify bank balances.**

(3 Marks)

(Total: 20 Marks)

End of question Paper

BLANK PAGE

BLANK PAGE