



CERTIFIED ACCOUNTING TECHNICIAN
STAGE 3 EXAMINATIONS
S3.4 AUDIT AND ASSURANCE
DATE: TUESDAY 27, MAY 2025
MARKING GUIDE AND MODEL ANSWERS

SECTION A

Marking guide

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

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

Model Answer

1. The Correct Answer is B: the fundamental principal of professional ethics are integrity, objectivity and confidentiality

A, C and D are not correct answers because they include skepticism which is not part of fundamental principles of professional ethics.

2. The correct answer is B.

By comparing payroll and income tax returns, this will not give evidence that the correct payments have been made to employees.

By comparing Recording of hours worked; Re-performance of payroll calculations and Comparing bank transfer list with payroll you can obtain assurance that the correct amounts are paid to employees. Therefore, A, C and B are not correct answers.

3. The correct answer is A.

Audit planning requires a risk-based approach. In this approach, audit resources are directed towards those areas of the financial statements that may contain misstatements (either by error or omission).

The audit planning is earlier stage of audit and could not rely on materiality, fraud monitoring and audit evidence. Therefore, B, C and D are incorrect answers.

4. The Correct Answer is C

Correct answer is C because costs of implementing controls may outweigh benefits, mistakes may occur when controls are being operated and controls may be bypassed by people acting in collusion are the limitation of system of internal control but the control procedures have to be updated over time is not a limitation of the internal control.

A, B and D are not correct answer because it includes point (iv), control procedures have to be updated over time which is not a limitation of system internal control

5. The Correct Answer is B

Receipt of goods or services is required in order to establish a liability, this is the question relating to purchases system not sales, for purchase is where you receive goods or services

Answers A, C and D are not correct because they are all relevant question to sales system

6. The Correct Answer is D

Correct answer is D because Photocopies documents, emails, telexes or facsimiles is less more reliable than audit evidence from external sources, audit evidence obtained from the entity's records and original documents.

A, B and C are not correct answer because audit evidence from external sources (eg confirmation received from a third party), audit evidence obtained from the entity's records, original documents are not correct answer because those documents are more reliable than photocopies documents, emails, telexes or facsimiles.

7. The Correct Answer is B

Increase in number of invoices in population, this would have a minimal impact on increase of sample size.

A, C and D are not correct answer because Increase in the required confidence level, increase in tolerable misstatement and increase in assessed risk have more effect on sample size than increase in number of invoices in population

8. The Correct Answer is A

The correct answer is A because while all of these questions will be considered in preparation for the finalization of the audit report only consideration of the suitability of the audit plan and whether the work has been performed in accordance with relevant standards will have an impact on the audit opinion.

B, C and D are not correct answers because the questions in points B, C and D don't have impact on audit opinion

9. The Correct Answer is A

Matters which required significant auditor attention

ISA 701 communicating key audit matters in independent auditor's report, the auditor should include in his audit report the matters, which required significant auditor attention.

The other three options are not supposed to be part of the audit report.

10. The Correct Answer is C

The correct answer is C because (iii) and (iv) are the appropriate tests of controls in audit of inventory tests. A, B and D are not correct answers because they include the test of controls not appropriate for the audit of inventory.

SECTION B

QUESTION 11

Marking guide

Question	Description	Total Marks
Qn 11. a	Award 1 Mark per every purpose of audit program provided. Maximum of 3 marks means (3 points* 1 Marks each purpose) Consider other correct purpose provided by candidate not in the model answers are acceptable.	3
Qn 11. b	Award 1 Mark per every benefit of audit planning provided. Note: only 4 benefits of audit planning were required. Maximum of 4 marks means (4 points* 1 Mark each) Other correct benefit of audit planning provided by candidate not in the model answers are acceptable.	4
Qn 11. c	Award 1 Mark per every content of engagement letter provided by the candidate. Note: only 3 contents of engagement letter were requested. Maximum of 3 marks means (3 points* 1 Mark each)	3
Total Marks		10

Model answer

a) The purpose of audit program

1. It facilitates allocation of audit work as absence audit clerk will indicate how far they had gone and others can take over easily in so far as they know where he/she had stopped.
2. It ensures that all work to be done has been completed on time
3. The auditor can follow the same program in subsequent audits which facilitates uniformity of the audit work
4. It enables the auditor to monitor the progress of the given audit
5. It's used both as a control tool and means of delegating audit work
6. It acts as training ground for new audit assistants who can follow the program easily

b) Benefits of audit planning

1. It helps in assisting in the selection of engagement team members with appropriate levels of capacities and competence to respond to anticipated risks and the proper assignment of work to them
2. Audit planning helps the auditor to develop appropriate attention to important areas of the audit
3. It helps the auditor properly organize and manage the audit engagement so that it is performed in an effective and efficient manner
4. Audit planning helps the auditor to identify and resolve potential problems on a timely basis
5. Facilitating the direction and supervision of engagement team members and the review of experts

c) Contents to be included in the audit engagement letter

1. The objectives of the audit of financial statements
2. Management's responsibility for the financial statements
3. Details of other services to be provided such as taxation and management consultancy work
4. Fee: basis on which it is computed, rendered and paid
5. Expectation of receiving from management written confirmation concerning representations made in connection with the audit
6. The scope of the audit including reference to applicable legislation and regulations
7. The form of any reports or other communication of the results of the engagement
8. It includes that the audit will have unrestricted access to whatever records, documentation and other information requested in connection with the audit.
9. Request for the client to confirm the terms of engagement by acknowledging receipt of the engagement letter

QUESTION 12

Marking guide:

Question	Description	Total Marks
Qn 12 a	Award 1 Mark per every provided objective that internal control aims to achieve. Note: only 4 objectives were required Maximum of 4 marks means (4 points* 1 Mark each). Other correct objective provided by candidate not in the model answers are acceptable.	4
Qn 12 b	Award 1 Mark per every provided control objective and 1 Mark per provided control activity Note: only 3 control objective and 3 control activities were required. Maximum of 6 marks means (6 points* 1 Mark each). Other correct control objective and control activity provided by candidate not in the model answers are acceptable.	6
	Total Marks	10

Model Answers:

a) Explanation of management objective that an internal control can help management of KARIMA Ltd to achieve

1. An internal control system enables management to carry out the business in orderly and efficient manner.
2. An internal control system ensures that the various established policies that have been put in place are adhered too by employees in running daily operations of KARIMA Ltd
3. An internal control system helps in safeguarding the company assets. Companies are required to design internal control to safeguard the assets from theft, destruction and safeguard assets by using them in personal interest.

4. An internal control system helps in ensuring completeness and accuracy of the record maintained.
5. Strong Internal Control system helps in preventing and detection of errors and fraud. The responsibility for the prevention and detection of fraud and errors rests with management.

b) Control objectives and control activities, you would recommend KARIMA Ltd over purchase system.

S/N	Control objectives	Control activities
1	All orders for, and expenditure on, goods and services are properly authorized, and are for goods and services that are actually received and are for the company.	<ul style="list-style-type: none"> • Order forms prepared only when a purchase requisition has been received • Authorization of order forms (in accordance with pre-defined authority levels) • All orders made on official company documents, and showing suppliers' name, quantity order and price
2	Orders are only made to authorized suppliers.	<ul style="list-style-type: none"> • Central policy for choice of suppliers, and list of approved suppliers maintained • Supplier master file data periodically reviewed by management to ensure approved suppliers remain suitable/appropriate
3	Orders are made at competitive prices	<ul style="list-style-type: none"> • Monitoring of supplier prices in relation to other potential alternative suppliers • Monitoring of supplier terms and taking advantage of favorable conditions (bulk order, discount)
4	Goods received are used for the organization's purposes and not private purposes.	<ul style="list-style-type: none"> • Evidence required of requirements for purchase before purchase authorized (re-order quantities and re-order levels)
5	Goods received are only accepted if they have been ordered, and the order has been authorized.	Authorization of order forms (in accordance with pre-defined authority levels)
6	All goods and services received are accurately recorded.	<ul style="list-style-type: none"> • Examination of goods inwards <ul style="list-style-type: none"> – Quality – Quantity – Condition • Recording arrival and acceptance of goods (pre-numbered goods received notes, signed by a responsible company official) • Comparison of goods received notes with purchase orders

S/N	Control objectives	Control activities
7	Receipt of goods and services is necessary to establish a liability.	<ul style="list-style-type: none"> • Recording arrival and acceptance of goods (pre-numbered goods received notes) • Comparison of goods received notes with purchase orders • Referencing of supplier invoices; numerical sequence and supplier reference • Confirmation of suppliers' invoices <ul style="list-style-type: none"> - Comparison with order and goods received note - Prices, quantities, accuracy of calculation
8	All expenditure that is made is recorded correctly in the general and payables ledgers	<ul style="list-style-type: none"> • Segregation of duties: accounting and verification functions • Prompt recording of purchases and purchase returns in day books and ledgers • Comparison of supplier statements with payables ledger balances on a regular basis • Reconciliation of payables ledger control account to total of payables ledger balances
9	All credit notes that are received are recorded in the general and payables ledgers	Comparison of supplier statements with payables ledger balances
10	All entries in the payable's ledger are made to the correct payable's ledger accounts	<ul style="list-style-type: none"> • Comparison of supplier statements with payables ledger balances • Regular maintenance of payables ledger

SECTION C

QUESTION 13

Marking guide

Question	Description	Total Marks
Qn 13 a)	Award 1 Mark for every analytical procedure and 1 Mark per provided explanation. Note: only 2 audit analytical procedures and their explanations were required Maximum of 4 marks means (2 points* 2 Marks each) Other correct analytical procedures with related explanations provided by candidate not in the model answers are acceptable.	4
Qn 13 b)	Award 2 Marks for two enquiries on receivables Award 2 Marks for two enquiries on inventory Maximum of 4 marks means (4 points* 1 Marks each) Other correct valid inquiry provided by candidate not in the model answers are acceptable.	4
Qn 13 c (i) and ii	i) Award 2 Marks per well explained treatment of provided scenarios. Note: only treatment of three scenarios were required Maximum of 6 marks means (3 points* 2 Marks each)	6
	ii) Award 1.5 Marks per every audit procedure to identify material post balance events Note: only four audit procedures were required Maximum of 6 marks means (4 points* 1.5 Marks each) Other correct valid audit procedures to identify material subsequent events provided by candidate not in the model answers are acceptable.	6
Total Marks		20

Model Answer

a) Two items on which should be considered by the auditors as part of his/her analytical procedures are as follows:

Sales and receivables:

Given that revenue has increased by 12% means FRW (56,000,000- 50,000,000/ 50,000,000) *100, the fact that receivables have declined by 7.7% FRW (9,600,000-10,400,000/9,600,000) *100), seems to be worthy of further investigation. The auditor must check the average number of receivables days at the year ended 31 December 2022 and compare with receivable days of year ended 31 December 2021 and advise the company accordingly.

The auditors should consider the possibility that receivables (and therefore possibly sales as well) have been understated because of inadequate cut-off procedures (this could also have a bearing on the inventory figure) or that they might have been reduced as a result of a significant level of irrecoverable debts.

Trade payables: Trade payables has increased by **16.7%** FRW (9,800,000-8,400,000/8,400,000) *100, this means that the company is not able to meet its obligation on due date or acquiring the products on credit. Here audit should assessment the reasons behind on this increase of payable.

b)

For account Receivables:

1. Consider the need to circularize accounts receivable at the year end in order to provide some assurance as to the reliability of the receivables figure.
2. Review the recoverability of the outstanding receivables by considering an aged analysis.

For Inventory:

1. Carry out tests on the inventory records and note carefully any slow-moving items, considering their valuation.
2. Carry out a full series of tests into the adequacy of the company's cut-off procedures at the year end.

c)

i) The treatment of the events provided in case study:

1. For bankrupt of the customer: This is subsequent event affecting the value of debtors at the year-end that will require an adjustment to the provision of doubtful debts. It is an adjusting event.

2. For lost court case: this is subsequent event that should be adjusted in the financial statements. It relates to a condition that existed at balance sheet date. It is an adjusting event.

3. For damaged motor vehicles due to road accident: This is a subsequent event that should be disclosed by way of a note to the financial statements as it does relate to conditions existing at balance sheet date. It is non-adjusting event.

ii) audit procedures to be followed in regard to subsequent event:

- Reviewing procedures management has established to ensure that subsequent events are identified and enquiring whether any such events have occurred which might affect the financial statements being reported on.
- Reading tax entity's latest available financial statements and other management reports
- Inquiring from entity's lawyers concerning litigation and claims against the company. This will provide further details on any developments on such litigations;

- Reading minutes of the meeting of the shareholders, the board of directors and audit committees held after the end of financial period. By reading such interim financial statements the auditor is able to identify any material subsequent event that might have occurred since this would ordinarily be discussed at these meetings.
- Enquiring of management as to whether any subsequent events have occurred which might affect the financial statements.
- Review the entity's latest available interim financial statements and other reports such as budgets and cash flow forecasts. By reading such interim financial statements the auditor is able to identify any subsequent events.

QUESTION 14

Marking guide

Question	Description	Total Marks
Qn 14 a)	<p>Award 1.5 Marks per provide audit procedure to perform for non-current assets. Note: only 4 audit procedures were required Maximum of 6 marks means (4 points* 1.5 Marks each)</p> <p>Other correct valid audit procedures to test existence and completeness of non-current assets provided by candidate not in the model answers are acceptable.</p>	6
Qn 14 b(i)	<p>Award 1 Mark per every provided audit procedure to be performed on additions of plant and machinery Note: only 4 audit procedures were required Maximum of 4 marks means (4 points* 1 Mark each)</p> <p>Other correct valid audit procedures for audit of additions in plant and machinery provided by candidate not in the model answers are acceptable.</p>	4
Qn 14 b(ii)	<p>Award 1.5 Marks per every provided audit procedure to be performed on depreciation charge Note: only 4 audit procedures were required Maximum of 6 marks means (4 points* 1.5 Marks each)</p> <p>Other correct valid audit procedures for audit of depreciation charge provided by candidate not in the model answers are acceptable.</p>	6
Qn 14 b(iii)	<p>Award 1 Mark per every provided audit procedure to be performed on disposal of non-current assets Note: only 4 audit procedures were required Maximum of 4 marks means (4 points* 1 Mark each)</p> <p>Other correct valid audit procedures for audit of disposal of non-current assets provided by candidate not in the model answers are acceptable.</p>	4
	Total Marks	20

Model Answer

a) The audit procedures to carry out while testing existence of non-current assets in the non-current asset.

1. Confirm that the company inspects all items in the non-current asset register.
2. Inspect assets concentrating on high value items and additions, on sample basis auditor must visit the assets
3. Review records of income yielding assets for confirmation that income was yielded during the year.

To verify completeness of assets in the non-current asset register, I would carry out the following tests.

1. Compare the non-current asset register with the general ledger and obtain explanation for differences.
2. Verify whether non-current assets which physically exist have been recorded in the non-current asset register.

As conclusion, the possible sources of evidence include asset inspection by the client and auditor and also review of records. Reconciliation of different sources of evidence is a key test for completeness

b)

i) Audit procedures that should carry out on the additions in plant and machinery:

1. Inspect the new plant and machinery to confirm its existence. (This tests existence.)
2. Verify that the purchase has been authorised by examining board minutes or other evidence of authorisation. (This helps confirm rights and obligations.)
3. Confirm the purchase price paid to suppliers' invoice and cash book. (This tests valuation.)
4. Verify whether any security has been granted over the plant and machinery; if it has, we should ensure that it has been properly recorded and disclosed in the financial statements. (This tests rights and obligations and presentation.)

ii) Audit procedures that should carry out on the depreciation charge:

1. Verify whether the depreciation charge is consistent with charges for previous years, and consistent with the company's accounting policies relating to depreciation using analytical procedures
2. reperform the calculation of the depreciation charge for individual vehicles/in total by recalculation to ensure that it is not misstated.
3. Review the profits or losses on disposals of motor vehicles during the period to ensure that the charge is not excessive.
4. Verify that depreciation rates appear reasonable in the light of vehicle usage and replacement policy
5. Confirm that all vehicles are being depreciated by reviewing the non-current asset register and the charge for the period to ensure that vehicles are not overstated.

6. Verify that no further depreciation is being charged on fully depreciated vehicles to ensure that the depreciation charge is not overstated.
7. Confirm that the client's depreciation policy and depreciation charge are disclosed in the financial statements by inspecting the draft financial statements to ensure that the information is correctly presented.

iii) Auditors should carry out the following work on disposals:

1. Verify disposals with supporting documentation.
2. Recalculate the profit or loss on disposal.
3. Confirm that disposals have been authorised by inspecting Board minutes.
4. Consider whether proceeds received appear reasonable.

QUESTION 15

Marking guide		
Question	Description	Total Marks
Qn 15. a	Award 2 Marks for provided opinion on four provided scenarios in the question Note: only four opinions for four scenarios were required Maximum of 8 marks means (4 points* 2 Mark each)	8
Qn 15. b	Award 1 Mark per every provided element of audit report Note: only four elements of audit report were required Maximum of 4 marks means (4 points* 1 Mark each)	4
Qn 15.c	Award 2 Marks for every explained factor of going concern (1 Mark per provided factor and 1 Mark per provided valid explanation) Note: only 4 factors with their explanations were required Maximum of 8 marks means (4 points* 2 Marks each)	8
Total Marks		20

Model Answer

a) Audit opinion that will be expressed for every circumstance:

1. Failure by the directors of the company to apply an accounting standard

Adverse opinion: this can express if the failure to apply accounting standard leads is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

Except for: if the failure to apply the standard is not so material and pervasive as to require and adverse opinion or disclaimer opinion.

2. In case the directors of a company did not permit the auditor to carry debtors' confirmation

Except for: if limitation of scope on the debtor's circularization is not so material and pervasive as to require an adverse opinion or disclaimer.

Disclaimer opinion: the limitation of scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and as result not express an opinion on the financial statements.

3. Where company's motor vehicle was not disclosed in the books of account of the company

Adverse opinion: non- disclosure is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

4. Failure to charge depreciation of plant and machinery

By failure to charge depreciation, the management have gone against IAS 16 which require every to be systematically depreciated over its useful life

Except for opinion: in an audit opinion i will qualify and include the except for paragraph by stating that the financial statements give a true and fair view except for the directors not depreciating plant and machinery.

b) Elements of the audit reports

1. Title
2. Addressee
3. Introductory paragraph
4. Director's responsibility for the financial statements
5. Auditor's responsibility for the audit
6. Auditor's opinion
7. Other reporting responsibility
8. Auditor's signature
9. Date of the report
10. Auditor's address

c) factors which could indicate that a particular company was not a going concern, of which some of the most important are as follows:

1. **Failure to generate sufficient profits.** Obviously, any company which proves unable to operate at a profit will not be a going concern since the losses which it makes serve to drain existing capital from the business. However, where a previously successful company begins to trade at a loss this may be a symptom of other problems.
2. **Reductions in liquidity,** as shown by increasing overdraft levels, worsening gearing and current asset ratios and a growing level of payables. If payables exceed inventories, this could suggest that a company must sell its goods before it can pay for them. As with

trading losses, liquidity problems are likely to be a symptom of going concern difficulties as much as they are their cause.

3. **Loss of important customers.** If these had previously accounted for a major part of turnover, there could be serious implications unless alternative outlets are found. The company will have insufficient revenue while fixed costs will remain the same. A manufacturing company may continue to produce goods which cannot be sold
4. **Shortage of materials essential to a company's manufacturing process.** This could happen through the failure of a major supplier or simply because of a general shortage of raw materials in the industry. Clearly if a company cannot produce the goods it needs to sell its future must be in doubt.
5. **Taking of extended credit by customers.** The most likely cause of this would be poor credit control on the part of the company. Excess credit would reduce working capital and might have a 'knock on' effect if the company found itself unable to meet its own bills as they fall due. In these circumstances, the company could be at risk of being put into receivership or going into liquidation
6. **Overtrading by the company.** If sales are increasing too rapidly, the company may encounter an equally rapid increase in the amount invested in inventory and receivables. A manufacturing company may also find itself buying more plant and equipment in an effort to meet demand. All these factors will have the effect of draining liquid funds from the company, with the result that it may be unable to pay for the goods and services it requires to carry on.
7. **Redemption of loan capital.** This may originally have been part of long-term borrowings and redemption is at a time when a company is unable to finance this from its own resources. If alternative sources of finance are not readily available, the company may come under quite severe financial pressure.
8. **Replacement of non-current assets** which are nearing the end of their useful lives might be necessary at a time when finance is tight. This may have a serious impact upon the company's ability to maintain capacity levels or even to continue in business at all.
9. **Adverse movements in exchange rates.** These would affect companies with substantial imports where the national currency was weak against other currencies and would affect exporting companies where the national currency was strong against other currencies.
10. **Reductions in research and development expenditure.** Liquidity problems may encourage a company to cut back on its research and development expenditure. However, the savings are likely to be very short term. In the longer term, the company may become less and less competitive as it fails to produce new products to meet changes in demand.
11. **Changes in policy,** such as a decision to lease rather than buy new non-current assets. These may indicate going concern difficulties, particularly where, as is frequently the case, the finance charges for such lease arrangements are higher than they would have been using a conventional bank loan

End of Marking Guide and Model Answers