
**CERTIFIED ACCOUNTING TECHNICIAN
STAGE 3 EXAMINATION**

S3.4: AUDIT AND ASSURANCE

DATE: TUESDAY 25, NOVEMBER 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 to 2 marks each.
4. Section B has **2** questions equal to 10 marks each.
5. Section C has **3** questions equal to 20 marks each.
6. All questions are compulsory.
7. The question paper should not be taken out of the examination room

SECTION A

QUESTION ONE

During the overall review of financial statements being audited, the auditor is required to perform and document an overall review before reaching an audit opinion. It is expected to review accounting policies and a review for consistency and reasonableness in preparation of financial statements under audit.

As a CAT stage 3 student, **which of the following should not be considered when evaluating the accounting policies used in preparing the financial statements?**

- A Policies commonly adopted in particular industries.
- B Policies for which there is substantial authoritative support.
- C Whether any departures from applicable accounting standards are necessary for the financial statements to give a true and fair view.
- D The degree of uncertainty about the events or conditions being assessed increases significantly.

(2 Marks)

QUESTION TWO

With reference to ISA 315 “*Identifying and assessing the risks of material misstatement*”, the auditor shall obtain an understanding of internal control relevant to the audit. In obtaining an understanding of internal control, the auditor must gain an understanding of the design of the internal control and the implementation of that control.

Which of the following are elements of internal control?

- i) Control environment.
- ii) Control activities.
- iii) Monitoring of controls.
- iv) The information system.

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

(2 Marks)

QUESTION THREE

With reference to ISA 700 “*Forming an opinion and reporting on financial statements*”. The auditor forms an opinion on whether the financial statements give a true and fair view.

Which of the following should be considered by the auditor during the evaluation of the fair presentation before forming an audit opinion on the financial statements being reviewed?

- i) The overall presentation, structure and content of the financial statements.
- ii) Whether the financial statements, including disclosures in the notes, faithfully represent the underlying transactions and events.
- iii) Whether the financial statements (after any adjustments as a result of the audit process) are consistent with the auditor's understanding of the entity and its environment.
- iv) Consider the likelihood of the risks causing a material misstatement.

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

(2 Marks)

QUESTION FOUR

Which of the following is the correct definition of control environment as an element of the internal control system?

- A The control environment is the framework within which controls operate. The control environment is very much determined by the management of a business.
- B The control environment is those policies and procedures in addition to the control environment which are established to achieve the entity's specific objectives.
- C The control environment is a process to assess the effectiveness of internal control performance over time. It involves assessing the effectiveness of controls on a timely basis and taking necessary remedial actions.
- D There is a component of internal control that includes the financial reporting system, and consists of the procedures and records established to initiate, record, process and report entity transactions and to maintain accountability for the related assets, liabilities and equity.

(2 Marks)

QUESTION FIVE

Analytical procedures consist of evaluations of financial information made by a study of plausible relationships among both financial and non-financial data. Auditors should apply analytical procedures as risk assessment procedures to obtain an understanding of the entity and its environment.

Which among the following should serve as possible sources of information about the client during risk assessment procedures?

- i) Non-financial information
- ii) Interim financial information
- iii) Board minutes
- iv) Sales tax returns

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

(2 Marks)

QUESTION SIX

Control activities are those policies and procedures in addition to the control environment that are established to achieve the entity's specific objectives. With reference to ISA 315 *"Identifying and assessing the risks of material misstatement"*, the auditor shall obtain an understanding of control activities relevant to the audit and how the entity has responded to risks arising from Information Technology.

As a CAT student, which of the following is not among the objectives to set and implement a specific procedure to ensure the audit objectives are achieved?

- A To prevent errors
- B To detect errors
- C To provide an audit opinion
- D To correct errors

(2 Marks)

QUESTION SEVEN

IAS 1 *"Presentation of financial statements"* requires management to make an explicit assessment of the entity's ability to continue as a going concern.

When management is making an assessment on the going concern of a given company, **which of the following is not a factor that should be taken into consideration as guided by ISA 570 *"Initial audit engagements-opening balances"*?**

- i) The degree of uncertainty about the events or conditions being assessed increases significantly the further into the future the assessment is made.
- ii) Judgements are made on the basis of the information available at the time.
- iii) 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.
- iv) Status of items involving subjective judgement/accounted for using preliminary data.

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

(2 Marks)

QUESTION EIGHT

With reference to ISA 520 “*Analytical procedures*”, **which of the following is not considered to be an analytical procedure?**

- A Comparisons of financial statement amounts with nonfinancial data.
- B Comparisons of financial statement amounts with budgeted amounts.
- C Comparisons of financial statement amounts with source documents.
- D Comparisons of financial statement amounts with comparable prior year amounts.

(2 Marks)

QUESTION NINE

With reference to ISA 570 “*Going concern*”, there are possible indicators of going concern problems in a given company for your reference.

Based on the above ISA and possible indicators provided, **which are the following should be financial indicators of going concern problems in a company?**

- i) The company needs borrowing facilities which have not been agreed.
- ii) Relying too heavily on short-term borrowing
- iii) Major debt repayment falling due where the company will need to borrow again if it can
- iv) Indications that creditors want to call in loans

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

(2 Marks)

QUESTION 10

During the review for consistency and reasonableness, the auditor should consider whether the financial statements are consistent with their knowledge of the entity's business and with the results of other audit procedures, and the manner of disclosure is fair.

Which of the following is the principal consideration for an auditor when reviewing consistency and reasonableness in the preparation of financial statements?

- i) Whether the financial statements adequately reflect the information and explanations previously obtained and conclusions previously reached during the course of the audit.
- ii) Whether it reveals any new factors which may affect the presentation of, or disclosure in, the financial statements.
- iii) Whether the presentation adopted in the financial statements may have been unduly influenced by the directors' desire to present matters in a favorable or unfavorable light.
- iv) The potential impact on the financial statements of the aggregate of uncorrected misstatements identified during the course of the audit and the preceding period's audit.

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

(2 Marks)

SECTION B

QUESTION 11

Mwenzangu is a student pursuing CAT under stage 3 and he is planning to sit for the exam in May 2026. He is revising days and nights so that he may pass auditing and assurance among others. During his revision, he encountered some challenges in the above course and approached you for further guidance and clarification.

Required:

- a) International Standards on Auditing (ISAs) are produced by the International Auditing and Assurance Standards Board (IAASB), a technical committee of IFAC. As a CAT student, **briefly describe the structure of the International Standards on Auditing.** (5 Marks)
- b) All members and students of ICPAR are subject to the provisions of the ICPAR Code of Ethics, which conforms with the requirements of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics. **Briefly, describe the FIVE fundamental principles set out in IESBA Code of Ethics.** (5 Marks)

(Total: 10 Marks)

QUESTION 12

Mapindano is your neighbor, recently recruited under KGB CPA and Associates Ltd. The company won the tender to audit a company specializing in food processing and supply industry named Food Processor Expert Ltd for the year ended 31 December 2022. The company focused in the area of Kigali city and eastern province where the company has majority of clients. Mapindano was assigned to review receivables account balance, one of material component in financial statements. Mapindano as new auditor in the firm and aware that you are pursuing CAT final stage, approached you for further guidance and clarification.

Required:

- a) **Explain to your neighbor, Mapindano, what audit evidence is.** (2 Marks)
- b) As per ISA 500 “*Audit evidence*”, the objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions. **Differentiate clearly to your neighbor Mapindano, what is sufficient and appropriate audit evidence.** (2 Marks)
- c) **Briefly explain to Mapindano TWO types of audit approaches.** (4 Marks)
- d) Mapindano as a new auditor, needs a clear explanation on substantive tests and tests of controls. **Briefly explain the difference between substantive tests and tests of controls**

(2 Marks)

(Total: 10 Marks)

SECTION C

QUESTION 13

Kamaro is a wholesaler businessman living in Kigali city. He used to collect and purchase different fresh products from different farmers across the country. He has a big store in the city where products are passed and stored before distributed to the small retailers across the city. Kamaro employed more than 20 staff at the warehouse, 16 drivers and 2 recovery officers. For the year ended 31st December 2023, he reported a turnover of FRW 120 million. Due to inadequate internal control system in purchases, he is not sure on the accuracy and completeness of the cost of sales to be able to determine the profit for the year.

The Business man approached your audit firm to conduct the audit of his financial statements for the year ended 31st December 2023. Among others, your audit firm is expected to help the businessman to design an effective internal control system under purchases process to address the existing gaps.

Required:

With reference to the above statement:

- a) **Explain the most important objectives of internal control relating to receivables and sales applicable to Kamaro's business (Hint. use a table).** (6 Marks)
 - b) **Outline Eight test of controls to be performed by auditor during review of purchases in Kamaro's business.** (8 Marks)
 - c) At the end of audit exercise of Kamaro's financial statements for the year ended 31st December 2023, your audit manager went for urgent official mission abroad and you are required prepare Management letter to be signed by audit partner. **Explain what management letter is and list FOUR importances of management letter.** (6 Marks)
- (Total: 20 Marks)**

QUESTION 14

You are a Senior Auditor at ONIMU Partners Ltd and recently completed CAT qualification. Together with your audit manager who is still under CAT - stage 3, you are finalizing the audit process of Green Revolution Company Ltd specialized in environmental, conservation and improved environment. The company focused in supporting practices like informed consumption, conservation practices and investment in renewable energy.

Green Revolution Company Ltd operates across the region, selling plantation at a lower rate especially in rural areas. The company has submitted its financial statements for the year ended 31st December 2023 which show total assets of FRW 900 million (under which the inventory contributed 60% of total assets reported) and total revenues of FRW 120 million (where by 80% realized from its main activity of sale of plantation in rural areas). 40% of company's inventory is imported from Europe and remaining 60% is bought within the country and internally developed. During the year, the company decided to stop importing its inventory by using internally available resources and increase its own processed inventory as a way of minimizing the costs.

From discussion with management and review of permanent file, it was noted that the company is not consistent in inventory valuation methods, inadequate inventory management system and weaknesses in supply chain management.

Required:

- a) As senior auditor in the team and recently completed CAT, **briefly explain what is error, fraud and who is responsible for detection and prevention of fraud.** (6 Marks)
- b) If the auditors breach the terms of their contract, the company being audited may have a claim against them for damages. **Discuss THREE things that must exist for the company to bring a successful claim.** (12 Marks)
- c) The auditors have a duty to exercise reasonable care. **What does a duty of reasonable care mean?** (2 Marks)

(Total: 20 Marks)

QUESTION 15

Kilimanjaro Ltd is private owned company specialized in metal production in Rwanda. The company focuses on sub-saharan market where located its main customers occupying above 90% of its clients. The company receives online orders from different countries, collect needed items and distribute to them timely. It is also the same responsibility of the company to ensure that minimum stock is maintained to avoid shortage which may occur and end up by losing key customers.

The company has marketing manager in each and every country who is also responsible to make sure that customers within the same country receive ordered items on time. Stock management, orders management and other controls management is centralized at Head Office located in Kigali Industrial Zone Area. Since its establishment, the company has not yet been audited while there is 3 years counted to 31st December 2023 and the Board of Directors recommended your private auditing firm to carry out the audit for the last financial year.

Further, the company use own trucks in distribution of orders received from different countries. Under the financial year ended 31st December 2023, the company bought 6 new trucks, sold other 4 old trucks and remained with 24 trucks.

Required:

- a) **Describe FIVE tests of controls to be performed by the auditor to ensure proper controls over movements (acquisitions and disposals) during the year ended 31st December 2023.** (5 Marks)
- b) 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 and affected by many factors. **Briefly explain Six factors that may affect inherent risk.** (12 Marks)
- c) **Enumerate the three basic components of an audit risk model.** (3 Marks)

(Total: 20 Marks)

End of questions paper