
CERTIFIED ACCOUNTING TECHNICIAN
STAGE 3 EXAMINATION

S3.4: AUDIT AND ASSURANCE

DATE: TUESDAY 24, FEBRUARY 2026

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

Ibyiwacu Ltd, is a trading company dealing in sales of locally manufactured lather shoes. KPT Auditors was appointed to be the auditor of the Ibyiwacu Ltd and you have been assigned as the Audit Manager to supervise the audit the company's financial statements for the year ended 31 December 2024. The financial statements were authorized for issue on 20 February 2025. On 10 January 2025, one of company's major customers, who had a material receivable balance in the company's accounts as at 31 December 2024 was declared bankrupt. As at 31 December 2024, the customer was experiencing severe financial difficulties, and management was aware of cash-flow problems, but no bankruptcy had been declared at that date.

The company's management was not aware of how to treat the bankrupt customer in the financial statements for the year ended 31 December 2024.

Which of the following would you advise the company's management auditor treat this event in according to IAS 10, Events after the Reporting Period?

- A No adjustment or disclosure is required as the customer's bankruptcy was declared after the reporting period.
- B Disclose the event in the notes only, as it is a non-adjusting event.
- C Modify the audit opinion immediately without requesting management to adjust or disclose.
- D Adjust the financial statements because the bankruptcy provides evidence of conditions that existed at the reporting date.

(2 Marks)

QUESTION TWO

After getting qualified as a CAT from the Institute of Certified Public Accountant of Rwanda, (ICPA), you have been recruited by JK Partners Ltd, a Certified Public Accountants Firm. JK Partners Ltd has been appointed to be an external auditor of XY Ltd.'s, a company operating in mining industry and you have been assigned to be part of the audit engagement team to perform the audit of the company, and you have been assigned to be part of the audit team to audit the XY Ltd.'s financial statements for the year ended 31 December 2025.

During the audit team discussion, the Audit Partner briefed the audit team of the need to pay attention to the Planning and Risk assessment phase of this client's audit. The team was advised on properly the client's internal control system to check the internal controls are effective. One of the audit assistants in the engagement team was ensure of the benefits of planning the audit and assessment of the client's internal controls.

The Audit Partner, requested you as a CAT qualified to brief the team on the main objective of the external auditor in assessing client's internal controls during the audit of financial statements.

Which of the following is the main objective of assessing the client's internal controls?

- A To help the auditor to confirm whether internal controls are properly designed
- B To help the auditor rely on internal controls during the audit.
- C To help the auditor increase the sample size of transactions to be audited
- D To Help the auditor understand the client's internal control system

(2 Marks)

QUESTION THREE

According to ISA 700, "Forming an opinion and reporting on financial statements", **which of the following must not be considered by the external auditor while forming an opinion and reporting on financial statements during the audit?**

- i) Appropriate audit programs to be performed to address the assessed risk of material misstatements at financial statements level
- ii) 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
- iii) The overall presentation, structure and content of the financial statements
- iv) Whether the financial statements, including disclosures in the notes, faithfully represent the underlying transactions and events

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

(2 Marks)

QUESTION FOUR

If the auditors have been negligent, it is possible that a third party may also have a claim against the auditors even though they do not have a contract with them. In accordance with this statement, **under which of the following circumstances, the auditor will not have a duty of care to third parties?**

- A When the auditor knows that a third party is not relying on the audited financial statements
- B When the auditor did not disclaim their liability to third party
- C The client has suffered some monetary loss as a direct consequence of the negligence on the part of the auditors
- D When there existed a duty of care enforceable at law

(2 Marks)

QUESTION FIVE

Which of the following is correct according to the IESBA Code of Ethics?

- i) Independence of mind is the state of mind that permits the provision of a conclusions without being affected by influences that compromise professional judgement, allowing an individual not to act with integrity, and exercise objectivity and professional skepticism
- ii) There may be some circumstances where the auditor may not be required to have independence of the entity being audited.
- iii) Independence in appearance is the avoidance of facts and circumstances that are so significant a reasonable and informed third party would be unlikely to conclude that a firm's, or audit and assurance team member's, integrity, objectivity or professional skepticism has been compromised
- iv) Independence does not necessary require the auditor to have both independence of mind and independence in appearance.

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

(2 Marks)

QUESTION SIX

The company act of Rwanda grants the external auditor rights on the company being audited. **Which of the following is not the right of the auditor as provided for by the company act?**

- A A right of access at all times to the books, accounts and vouchers of the company.
- B A right to get financial incentive from the company as a result of continuing clean audit opinion given to the company.
- C A right to be heard at general meetings which they attend on any part of the business that concerns them as auditors.
- D A right to require from the company's officers such information and explanations as the auditors think necessary for the performance of their duties as auditors.

(2 Marks)

QUESTION SEVEN

Which of the following is among the benefits of proper planning of the audit of financial statements in accordance with ISA 300, “Planning an audit of financial statements”:

- A To help the audit firm issue both audit report and management letter
- B To help team audit team members complete the assigned work without challenges
- C To help the audit team members devote the appropriate attention on important areas.
- D To enable the audit team to produce a clear and concise audit report on client’s financial statements.

(2 Marks)

QUESTION EIGHT

In accordance ISA 315 “*Identifying and assessing the risks of material misstatement through understanding the entity and its environment*”, **which of the following is not an element of Internal Control?**

- A Risk assessment process
- B Gathering sufficient appropriate audit evidence
- C Information system
- D Monitoring of controls

(2 Marks)

QUESTION NINE

You are an Auditor in Profession Auditors Ltd, an audit firm appointed to audit Hinga Ltd for the year ended 31 December 2025. Hinga Ltd is a small sized company dealing with storing fresh Irish potatoes which are converted into potatoes seeds to be sold across rural districts in Rwanda.

As part of your component to be audited, you have been assigned to audit the inventory balance reported as at the year ended end.

Which of the following are not control activities over the recording of inventory?

- i) Segregation of duties
- ii) All inventory movements are authorized and recorded
- iii) Inventory records only include items that belong to the client
- iv) Inventory issues supported by appropriate documentation

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

(2 Marks)

QUESTION 10

ISA 240, “*Auditor’s responsibilities relating to fraud in an audit of financial statements*” provide guidance on for responsibilities of Directors and external auditor in regards to fraud during the audit of financial statements. You are a Junior Auditor at XY Partners Ltd, a company licensed by ICPAR to practice accounting profession in Rwanda. A newly recruited audit assistant in your firm approaches you and requests you to explain to him/her the responsibility of the auditor in regards to fraud during the audit of financial statements.

As an auditor having experience, **which of the following would you explain to the audit assistant to be incorrect regarding the primary responsibility of an external auditor and the company’s Directors in regards to prevention and detection of fraud during the audit of financial statements?**

- i) The Directors have the primary responsibility for prevention and detection of fraud and the external auditor has nothing to do with it.
- ii) The Directors have the primary responsibility for the prevention and detection of fraud and the external auditor have no responsibility for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.
- iii) External auditor is fully responsible for prevention and detection of fraud
- iv) The Directors have the responsibility for the prevention and detection of fraud.

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

(2 Marks)

SECTION B

QUESTION 11

You are the audit assistant in J&J Partners Ltd, an audit firm operating in Rwanda under the license from the Certified Public Accountant of Rwanda (ICPAR). J&J Partners Ltd was appointed to be the auditor of S&J Trading Ltd, a company dealing in purchase and selling electronics. During the assignment of the audit to different audit teams in the firm, your team was assigned to audit the company's financial statements for the year ended 31 December 2025.

Except for the Audit Partner, it is the first time for all team members they are going to audit the company. Five (5) days before the start of the audit, the Audit Partner requested your team to meet him in his office to discuss on the approach for planning the audit of the client. During the discussion, the Audit Partner briefed the team to put much focus on the planning and risk assessment phase of the audit as any misstatement in the client's accounts would be material based on his previous experience with the client.

Required:

- a) In accordance with ISA 300 "*Planning an audit of financial statements*", **discuss any FOUR benefits for the auditor to plan the audit of financial statements.** (4 Marks)
- b) In accordance with ISA 320 "*Materiality in planning and performing an Audit*", **Explain the concept of Materiality and list any FOUR areas of its application during the audit of financial statements.** (6 Marks)

(Total: 10 Marks)

QUESTION 12

You are the audit senior at XY Partners Ltd, an audit firm licensed by ICPAR to practice accounting profession in Rwanda, the firm was appointed to audit the Turaheza Ltd for the year ended 31 December 2025. Turaheza Ltd is construction company operating in Rwanda with its headquarters in Rwamagana District. The company reported long term loan from the Bank of FRW 500,000,000. During the risk assessment, the audit team resolved that loan balance reported in the financial statements present high risk of material misstatements as it was observed that the company was failing to pay both the principal and interests as per the agreed upon loan repayment schedules. The audit partner briefed the audit team that based on the result of risk assessment, there is possibility that the company is experiencing going concern issues.

As the audit senior in the audit team, you have been assigned to audit the balance of long-term loan reported in the firm's client financial statements for the year ended 31 December 2025 as it represents material and risky balance in the company's financial statements.

Required:

- a) **Explain TWO components of Risk of Material Misstatement in the financial statements.** (4 Marks)

- b) **Outline any SIX possible indicators which may signal that the company has going concern problems in accordance with ISA (International Standard on Audit) 570 “Going concern”.** (3 Marks)
- c) **Discuss any THREE audit procedures you will perform to confirm completeness, accuracy, and presentation of loans balance reported in Turaheza Ltd financial statements as at the year ended 31 December 2025.** (3 Marks)
- (Total: 10 Marks)**

SECTION C

QUESTION 13

M&J CPA Ltd is a Certified Public Accountant firm headquartered in Kigali practicing accounting profession in Rwanda under the license from the Institute of Certified Public Accountants of Rwanda (ICPAR). After getting a CAT qualification from ICPAR, you have been recruited by the firm to be part of its audit staff. M&J CPA Ltd was appointed to be an external auditor of Excellent Trading Ltd, a private company dealing with retail of classic fashion. You have been assigned to be part of the team to conduct the audit of the company's financial statements for the year ended 31 December 2025.

At the time of planning phase of the audit, the Audit Partner advised the team that they have to gain a clear understanding of the Excellent Trading Ltd and its environment for a proper Planning and Risk Assessment. He clarified that the later will allow the firm to devise appropriate audit responses to the assessed risks of material misstatements to minimize the audit risk to an acceptable low level. The Audit Partner also reminded the audit team consider professional duty of confidentiality during and after the audit as it is crucial for auditors.

Required:

- a) In accordance with IESBA's International Code of Ethics for Professional Accountants,
 - i) **Explain the duty of confidentiality expected from auditors.** (2 Marks)
 - ii) **State any TWO circumstances where auditors might be required or have the duty or right to disclose confidential information.** (2 Marks)
- b) You have been assigned to review the balance of tangible non-current assets reported in the financial statements for the year ended 31 December 2025.
 - i) **Explain any FOUR key information that should be present in a non-current asset register as an important aspect of the internal control system over non-current assets.** (2 Marks)
 - ii) **Discuss FOUR key audit procedures to be performed to obtain sufficient appropriate audit evidence on the balance of non-current assets reported in the client's financial statements as at the year end.** (4Marks)
- c) In accordance with ISA 315 (Revised) "*Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*", **List FIVE ways an external auditor can use to obtaining an understanding of the entity and its environment.** (5 Marks)
- d) In accordance with ISA 330, "the auditor's responses to assessed risks", the auditor shall design and perform further audit procedures whose nature, timing and extent are based upon and are responsive to the assessed risks of material misstatement at the assertion level and requires the auditors to carry out tests of controls and substantive procedures. As a CAT qualified,

- i) **Explain the differentiate between test of controls and substantive audit procedures to be carried out by the auditor during the audit of financial statements.** (3 Marks)
 - ii) **Outline TWO types substantive audit procedures.** (2 Marks)
- (Total: 20 Marks)**

QUESTION 14

You are an audit assistant in JR Partners Ltd, a certified Public Accounting Firm operating in Rwanda under the license of ICPAR and the firm was contracted to audit JTC Traders Ltd, a company specialized in manufacturing Made in Rwanda clothes for export. You have been assigned to be part of the audit team to conduct the company's interim financial statements for the period of 6 months ended 30 June 2025.

During the audit kick off meeting, the Audit Partner advised the audit team to ensure clear audit documentation of the work done by each audit team member is properly done and to ensure sufficient appropriate audit evidences are obtained during the audit of the client and timely documented in the audit file.

After obtaining the understanding of the client's and its environment, the audit team realized that the company operates an online system through which overseas customers can view and place orders that are delivered without physical contact, and advised that to confirm completeness and accuracy of sales made, the use of Computer-Assisted Audit Techniques (CAATs) would be appropriate.

Required:

- a) As part of the audit team, the Audit Partners want to know whether you understand the audit documentation and requested you to:
 - i) **Explain the term “Audit documentation” and describe any TWO benefits that auditors will obtain from quality prepared working papers in accordance with ISA 230 “Audit documentation”.** (3 Marks)
 - ii) For recurring audits, working papers may be split between permanent and current audit files. **With an example, explain the difference between permanent and current audit files as used by the auditor during audit documentation.** (3 Marks)
- b) i) **Define the term “Audit evidence” and explain the difference between sufficiency and appropriateness of the audit evidence in Accordance with ISA 500 “Audit Evidence”.** (3 Marks)
- ii) ISA 500 “Audit Evidence” requires the auditor to obtain sufficiency appropriate audit evidence to support the conclusion reached during the audit. Auditors' judgement as to what is sufficient, appropriate audit evidence is influenced by a number of factors. **Identify FOUR factors that influence the auditors' judgment in regard to the sufficiency, appropriateness of audit evidence.** (4 Marks)

- c) Explain the meaning of Computer-assisted audit techniques and discuss any **THREE** benefits and **TWO** challenges associated with using it during the audit of financial statements. (7 Marks)

(Total: 20 Marks)

QUESTION 15

You are a Junior Auditor at J&J Partners Ltd; a Certified Public Accounting Firm headquartered in Nyaruguru district under the license from the Institute of Certified Public Accountant of Rwanda (ICPAR). Your firm was appointed as the auditor of YR Ltd, a company specialized manufacturing of cosmetic Products to be distributed in Rwanda under the License of Rwanda Food and Drugs Authority (Rwanda FDA). As part of the audit team, you are assigned to be part of the team to conduct the company's audit financial statements for the year ended 31 December 2025.

Required:

- a) You are assigned to audit General expenses reported in the company's financial statements for the year then ended. In accordance with ISA 530 "Audit sampling", **Explain the term "Audit sampling" and outline TWO circumstances under which 100% testing may be appropriate for certain substantive procedures during the audit of financial statements.** (4 Marks)
- b) During the audit, auditors perform procedures to give them an understanding of the accounting systems at a client. **Explain TWO techniques the auditor may use to gain an understanding of the client's accounting systems.** (5 Marks)
- c) ISA 330 "The auditor's responses to assessed risks" requires auditors to carry out tests of controls in areas where they believe controls are operating effectively. **Discuss any FOUR tests of controls to be performed by the auditor to test the design and effectiveness of internal controls over the client's sales system.** (4 Marks)
- d) Important controls over tangible non-current assets include physical custody and authorization of purchases and disposals. **List any FOUR important objectives of internal control relating to non-current assets.** (4 Marks)
- e) Explain any **THREE** principal substantive audit procedures the auditor should perform during the audit of bank balance. (3 Marks)

(Total: 20 Marks)

End of question paper

