SECTION A

MARKING GUIDE

Qn	ANSWER
1	D
2	D
3	C
4	A
5	D
6	B
7	C
8	B
9	A
10	C

Marks for each correct answer 2 Marks

Total Marks 20Marks

DETAILED MODEL ANSWERS

1. The correct answer is D

According to IAS 10, events after the reporting period, adjusting events are events that provide evidence of conditions that existed at the reporting date and should be adjusted in the financial statements for the year end, while non-adjusting events relate to events that indicate conditions that arose after the reporting date and should be disclosed in the financial statements for the year end.

Therefore, since the customer was already in financial difficulty at 31 December 2024 and the management was aware of this, the bankruptcy confirms an existing condition, making it an adjusting event. Therefore, the receivable should be written down.

Option A is not the correct answer as the bankruptcy provides evidence of conditions that it existed at the reporting date and should be adjusted as per IAS 10.

Option B, is not the correct answer as the disclosure is only made for those that are indicative of conditions that arose after the end of the report period

Option C, is not the correct answer as the auditor will need to modify the audit opinion after the client refuses to adjusts the financial statements this event.

2. The correct answer is B

The external auditor assesses the client's controls with the aim of establishing the degree of reliance to determine the extent of substantive testing to be performed during the audit of financial statements.

Option (A) is not the correct answer as though the auditor assesses internal controls to confirm whether internal controls are properly designed, their aim is not just to confirm their design

Option (C) is not the correct answer as though the auditor can decide to increase/decrease the sample size of transactions to be audited depending on the result of assessment of the controls, it is not their main objective, instead this is the result of the degree of reliance on internal controls established.

Option D is not the correct answer, as the objective of assessing internal controls of the client is not just to have their understanding. The auditor assesses them to understand to see whether they can place reliance on them.

3. **The correct answer is C**

According to ISA 700, Forming an opinion and reporting on financial statements states that forming an opinion as to whether the financial statements give a true and fair view involves evaluating the fair presentation of the financial statements and the auditor must consider 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 , the overall presentation, structure and content of the financial statements, and whether the financial statements, including disclosures in the notes, faithfully represent the underlying transactions and events.

Hence, options A, B, and D are not the correct answers as they reflect what the auditor must consider during the process of forming and audit opinion and reporting on the client's financial statements.

Option C is not considered at the reporting stage as the audit programs are reviewed and validated at the planning stages.

4. **The Correct Answer is A**

Under third parties and negligence, the following are requirements for a third-party negligence claim:

- **Duty of care:** There existed a duty of care enforceable at law
- **Negligence:** In a situation where a duty of care existed, the auditors were negligent in the performance of that duty, judged by the accepted professional standards of the day.
- **Damages:** The client has suffered some monetary loss as a direct consequence of the negligence on the part of the auditors.

The exceptional circumstances the auditor will have a duty of care to third parties even though they have no contract with them:

- **When an auditor knows that a third party is relying on the audited financial statements**. For example, if a director tells the auditor that the bank will rely on the audited financial statements, or if someone says to the auditor that he will purchase new shares on the strength of the audited financial statements.

When the auditor disclaim liability to those people, for example, by writing to them and stating that the auditor's report is only for the purposes of the shareholders and that they do not admit legal liability to anyone else.

Therefore,

Option B is not the correct answer as if the auditor disclaims the liability, they will not liable to third party with whom they have no contract

Option C is not the correct answer as the auditor will have liability if client has suffered some monetary loss as a direct consequence of the negligence on the part of the auditors

Option D is not the correct answer as the auditor should be liable in case there existed a duty of care enforceable at law

5. The Correct Answer is D

The IESBA Code of Ethics states that independence requires independence of mind and independence in appearance. In other words, the auditor must be, and must be seen to be, independent.

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 to act with integrity, and exercise objectivity and professional scepticism.

Independence in appearance is the avoidance of facts and circumstances that are so significant a reasonable and informed third party would be likely to conclude that a firm's, or audit and assurance team member's, integrity, objectivity or professional scepticism has been compromised.

Option (A) is not the correct answer as the auditor is always required to be independent vis a vis the clients and (iii) relate to a negative statement (unlikely)
Option (B) is not the correct answer as the IESBA Code of Ethics requires the auditor to have both independence of mind and in appearance.
Option (C) is not the correct answer as the auditor is required to always be independent of the client being audited and (iii) relate to a negative statement (unlikely) of what is required by the IESBA Code of Ethics.

6. The correct answer is B

The Rwanda Company Act 2018 grants auditor certain rights such as right of access at all times to the books, accounts and vouchers of the company, 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, right to attend any general meetings of the company and to receive all notices of and communications relating to such meetings which any member of the company is entitled to receive, right to be heard at general meetings which they attend on any part of the business that concerns them as auditors, right to receive a copy of any written resolution proposed. Therefore, option A, C, and D, are not the correct answer as all of them are rights of the auditor as per company act.

The auditor should not obtain financial incentive from the company as a result of continuing clean audit opinion given to the company, as this may create self interest threat to the auditor.

7. The correct answer is C

ISA 300, *planning an audit of financial statements*, provides for the importance of planning the audit of financial statements including (a) helping the auditor to devote appropriate attention to important areas of the audit, (b) helping the auditor identify and resolve potential problems on a timely basis, (c) helping the auditor properly organize and manage the audit engagement so that it is performed in an effective and efficient manner, (d) assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them, (e) facilitating the direction and supervision of engagement team members and the review of their work, (a) assisting, where applicable, in coordination of work done by auditors of components and experts.

Option (A) is not the correct answer as the auditor is responsible to issue all the required reports as per the engagement letter whether he/she has properly planned the audit or not.

Option (B) is not the correct answer as planning the audit helps the auditor to identify and resolve potential problems on a timely basis not complete the assigned work without challenges.

Option D is not the correct answer as the audit team can do a proper planning of the audit engagement but issue a poor-quality audit report as a result of lack of audit report writing skills.

8. The correct answer is B

ISA 315 “Identifying and assessing the risks of material misstatement through understanding the entity and its environment provides for the following five (5) elements of internal control:

- Control environment
- Risk assessment process
- Information system
- Control activities
- Monitoring of controls

According to ISA 500, auditor must gather sufficient appropriate audit evidence to support the audit conclusion reached during the audit. Therefore, it is not part of the elements of the internal control.

9. The correct answer is A

Option B is not the correct answer as it includes only control activities

Option C is not the correct answer it includes the mix of control activities (Segregation of duties, and Inventory issues supported by appropriate documentation) and control objective (Inventory records only include items that belong to the client)

10. The correct answer is C

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. However, an auditor conducting an audit in accordance with ISAs is responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Option (A) is not the correct answer as Directors have the responsibility for the prevention and detection of fraud.

Option (B) is not the correct answer as though Directors have the responsibility to prevent and detect fraud, an external auditor responsibility for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Option (D) is not the correct answer as The Directors have the responsibility for the prevention and detection of fraud.

SECTION B

QUESTION 11

Marking guide

No	Answer and mark allocation	Total Marks
a	The benefits for the auditor to plan the audit of financial statements in accordance with ISA 300 “Planning an audit of financial statements *(Award 1 mark for each category of risk stated and 1 march for a well explained Risk).*	**4**
b	Explain the concept of Materiality and list four (4) areas of its application during the audit of financial statements (*2 marks for a well explanation, and 1 mark for each valid listed application).*	**6**
	Total	**10**

a) Benefits for an external auditor of planning the audit of financial statements

According to 300 (para. 2) “Planning an audit of financial statements, the following are importances for an external auditor of planning the audit of financial statements:

Audits need to be planned to ensure that:

- ✓ Appropriate attention is devoted to the important areas of the audit.
- ✓ Potential problems are identified (and resolved) on a timely basis.
- ✓ Work is completed effectively and efficiently.
- ✓ Appropriate staff are engaged on the audit team and, the proper tasks are assigned to the members of the audit team.
- ✓ Assisting with the direction and supervision of the audit team and review of their work. Assisting with the coordination of work done by experts.

b) Application of Materiality:

According with ISA 320 “Materiality in planning and performing an Audit”, Materiality relates to the level of misstatement that affects the decisions of users of the accounts. Information is material if its omission or misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

In accordance with the standard, the auditor should consider materiality in each stage of the audit as listed below:

- ✓ During audit Planning
- ✓ During performing the audit
- ✓ During evaluating the effect of identified misstatements on the audit and of uncorrected misstatements on the financial statements, if any

✓ When forming the opinion in the auditor's report

QUESTION 12

Marking guide

No	Answer and mark allocation	Total Marks
a	Explain two categories of Risk of Material Misstatement in the financial statements. (*Award 1 mark for each category of risk stated and 1 march for a well explained Risk*).	**4**
b	Outline six (6) possible indicators which may signal that the company has going concern problems (*0.5 marks for each valid indicator*).	**3**
c	Discuss any three (3) audit procedures you will perform to confirm Completeness, Accuracy, and presentation of loans balance reported in Turaheza Ltd financial statements for the year then ended (*1 mark for each valid audit procedure*).	**3**
	Total	**10**

Model answers

a) Components of Risk of Material Misstatement in the financial statements:

ISA 200, the overall objectives of the auditor in conducting an audit of the financial statements, including to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level discuss the two components of the Risk of Material Misstatements as follows:

✓ **Inherent risk**: The susceptibility of an assertion to a misstatement and that could be material individually or when aggregated with other misstatements, before consideration of any related internal controls. It 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.

- **Control risk:** The risk that a misstatement that could occur in an assertion and that could be material, individually or when aggregated with other misstatements, will not be prevented or detected and corrected on a timely basis by the entity's internal control.

b) Possible indicators which may signal that the company has going concern problems

According to ISA 570 "Going concern, the following are possible indicator of the going concern problems:

Financial indications:

- ✓ Net liabilities or net current liability position where the company has more liabilities than assets
- ✓ The company needs borrowing facilities which have not been agreed
- ✓ Relying too heavily on short-term borrowing
- ✓ Major debt repayment falling due where the company will need to borrow again if it can
- ✓ Major restructuring of debt – this may indicate difficulties in repaying the debt which in turn may indicate going concern issues.
- ✓ Indications that creditors want to call in loans
- ✓ Negative operating cash flows in budgets or financial statements
- ✓ Key financial ratios showing adverse results
- ✓ Substantial operating losses or significant deterioration in the value of assets used to generate cash flows
- ✓ Major losses or cashflow problems which have arisen since the reporting date
- ✓ Inability to pay suppliers' invoices (payables) on due dates
- ✓ Inability to comply with terms of loan agreements
- ✓ Reduction in normal terms of trade credit by suppliers
- ✓ Change from credit to cash-on-delivery transactions with suppliers
- ✓ Inability to obtain financing for essential new product development or other essential investments
- ✓ Substantial sales of non-current assets not intended to be replaced

Operating indications:

- ✓ Loss of key management without replacement
- ✓ Loss of key staff without replacement
- ✓ Loss of a major market, franchises, license, or principal supplier
- ✓ Labor difficulties or shortages of important supplies as this would prevent the company from carrying out its business and eventually its ability to remain in business
- ✓ Excessive dependence on a few product lines where the market is depressed
- ✓ Technical developments which render a key product obsolete

Other indications

- ✓ Non-compliance with capital or other statutory requirements
- ✓ Pending legal proceedings against the entity that may, if successful, result in judgements that could not be met
- ✓ Changes in legislation or government policy
- ✓ Issues which involve a range of possible outcomes so wide that an unfavourable result could affect the appropriateness of the going concern basis
- ✓ Other valid indicators are acceptable

c) Audit procedures to be perform to confirm Completeness, Accuracy, and presentation of loans balance reported in the financial statements

- ✓ Compare opening balances to previous year's audit audited financial statements to confirm that these have been accurately brought forward to the current year.
- ✓ Obtain schedule of loans outstanding at the period end date to confirm completeness and accuracy of the reported loan balance
- ✓ Obtain the loan agreements to confirm the terms of loans
- ✓ Compare balances to the general ledger and investigate any differences.
- ✓ Agree name of lender etc, to register of debenture holders or equivalent (if kept).
- ✓ Trace additions and repayments to entries in the cash book to confirm the accuracy of the closing balance.
- ✓ Confirm repayments are in accordance with loan agreement to determine whether there may be any unrecognised penalties.
- ✓ Verify that borrowing limits imposed either by the company's constitution or by other agreements are not exceeded.
- ✓ Examine signed Board minutes relating to new borrowings/repayments to ensure that transactions are authorised.
- ✓ Obtain direct confirmation from lenders of the amounts outstanding, accrued interest and what security they hold and compare to the reported balance to confirm completeness and accuracy of the reported balance.
- ✓ Verify interest charged for the period and the adequacy of accrued interest to confirm that interest is not misstated.
- ✓ Review restrictive covenants and provisions relating to default
- ✓ Review minutes and cash book to confirm that all loans have been recorded.
- ✓ Review draft financial statements to ensure that disclosures for non-current liabilities are correct and in accordance with accounting standards.

SECTION C

QUESTION 13

No	Answer and mark allocation	Total Marks
a	(i) Explain the duty of confidentiality expected from auditors ***(Award 2 marks for a valid explanation)*** (ii) State any **two** circumstances where auditors might be required or have the duty or right to disclose confidential information ***(Award 1 marks for each stated valid circumstances)***	**4**
b	(i) Explain any **Four (4)** 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 *(Award 0.5 marks for each correct information stated)* (ii) Any Four **(4)** 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 *(Award 1 mark for each audit procedure discussed)*	**6**
c	(i) In accordance with ISA 315 (Revised) "*Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*" list **five (5)** ways an external auditor can use to obtaining an understanding of the entity and its environment. *(Award 1 mark for listed)*	**5**
d	(ii) Explain the differentiate between test of controls and substantive audit procedure to be carried out by the auditor during the audit of financial statements. *(Award 1.5 marks for each well explained procedure).* (iii) Outline two types substantive audit procedures. (*Award 1 Mark for each stated correct type)*	**5**
	Total	**20**

Model answers

a) In accordance with IESBA's International Code of Ethics for Professional Accountants

(i) Duty of confidentiality expected from auditors:

The principle of confidentiality requires an auditors respect the confidentiality of information acquired in the course of professional and business relationships as clients expect that their business affairs will be kept confidential by their accountants. However, they may be compelled by law, or consider it desirable in the public interest, to disclose details of clients' affairs to third parties.

(ii) Circumstances where auditors might be required or have the duty or right to disclose confidential information

Information acquired in the course of professional work should not be disclosed except in the following circumstances:

- ✓ Consent has been obtained from the client, employer or other proper source,
- ✓ There is a public duty to disclose,
- ✓ There is a legal or professional right or duty to disclose.

b) Explain Four (key) information that should be present in a non-current asset register and discuss Four (4) audit procedures to be performed to audit the non current assets reported in the client's financial statements as at the year end

(i) Information that should be included in a non-current asset register:

The non-current asset register is a very important aspect of the internal control system A typical non-current assets register will contain information Description of the asset, Acquisition date Acquisition Cost, Location of Assets, Accumulated Depreciation, Carrying value, Funding method, Disposal proceeds, Disposal date, Supplier of the Assets.

(ii) 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:

The following are audit procedures to be performed to audit the non current assets reported in the client's financial statements as at the year end:

Audit procedures to confirm Completeness:

- ✓ Obtain or prepare a summary of tangible non-current assets showing asset's Cost, Accumulated depreciation, and net Book and reconcile to the reported balance for completeness
- ✓ Reconcile the prior year closing balance to the current year opening balance to confirm it was correctly brought forward
- ✓ Compare non-current assets in the non-current-asset register with non-current assets in the general ledger and obtain explanations for differences to confirm completeness of the general ledger balance.
- ✓ Reconcile the schedule of non-current assets with the general ledger.

Audit procedures to confirm Existence:

- ✓ On a sample basis of assets from non current asset register, concentrating on high value items and additions in year inspect assets, to confirm there they actually exist, they are in use, are in good condition and they have corrected serial numbers/tag/codes
- ✓ Match a sample of assets which physically exist to the non-current asset register to confirm completeness of the assets recorded in the non-current asset register.
- ✓ Reconcile opening and closing vehicles by numbers as well as amounts to confirm completeness of vehicle reported

Audit procedures to confirm Valuation (and allocation):

- ✓ Verify valuation to valuation certificate
- ✓ Consider reasonableness of valuation, reviewing: Experience of valuer, Scope of work, Methods and assumption used, Valuation bases are in line with accounting standards
- ✓ Confirm revaluation surplus has been correctly calculated by recalculating it
- ✓ Consider whether permanent diminution in value of assets has occurred to determine whether any assets need to be written down to their recoverable amount.

Audit procedures to confirm Rights and obligations

- ✓ Verify title to land and buildings to obtain evidence of ownership by inspection of Title deeds, Land registry certificates, and Leases
- ✓ Inspect registration documents (Yellow cards) for vehicles held verifying that they are in the client's name.
- ✓ Confirm all vehicles used for the client's business.
- ✓ Examine documents of title for other assets (including purchase invoices, architects' certificates, contracts, hire purchase or lease agreements) to confirm ownership.

Audit procedures for Additions made during the year

- ✓ Verify additions by inspection of architects' certificates, lawyers' completion statements, vendors' invoices etc to confirm valuation and ownership.
- ✓ Verify capitalisation of expenditure is correct by considering for non-current assets additions and items in relevant expense categories (repairs, motor expenses, sundry expenses)
- ✓ Confirm purchases have been properly allocated to correct non-current asset accounts by inspecting a sample to confirm that all items of capital expenditure have been correctly classified.
- ✓ Confirm that purchases have been authorised by directors/senior management by inspecting Board minutes.
- ✓ For a sample of additions reconcile the assets register to the general ledger to verify that additions recorded in non-current asset register have been recorded in the general ledger to confirm completeness.

Audit procedures for Depreciation

- ✓ Confirm the correct depreciation rates were applied
- ✓ Confirm that depreciation has been charged on all assets with a limited useful life to ensure that assets are not overstated
- ✓ Reperform calculation of depreciation rates for a sample of assets in each category to confirm accuracy
- ✓ Confirm that no further depreciation is allowed on fully depreciated assets to ensure that the depreciation expense is not overstated
- ✓ Confirm that depreciation policies and rates are disclosed in the financial statements by inspecting the draft financial statements to ensure proper presentation

Audit procedures Insurance

Obtain and review insurance policies in force for all categories of tangible non-current assets and consider the adequacy of their insured values and review expiry dates

c) **Ways the auditor can use to obtaining an understanding of the entity and its environment:**

As per the ISA 315 (Revised) "*Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*", the following are ways the auditors can use to understanding the Entity and Its Environment.

- ✓ Inquiries of management and others within the entity:
- ✓ Analytical procedures
- ✓ Observation and inspection
- ✓ Prior period knowledge
- ✓ Client acceptance or continuance process
- ✓ Discussion by the audit team of the susceptibility of the financial statements to material misstatement
- ✓ Information from other engagements undertaken for the entity

d) Differentiate between test of controls and substantive audit procedures and two types of substantive audit procedures:

In accordance with ISA 330, "the auditor's responses to assessed risks", provides for further audit procedures to be designed and performed by the auditor 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.

(i) Differentiate between test of controls and substantive audit procedures:

Test of controls is an audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level while Substantive audit procedure is an audit procedure designed to detect material misstatements at the assertion level. Substantive procedures comprise tests of details and substantive analytical procedures.

(ii) Types substantive audit procedures:

In accordance with ISA 330, Substantive procedures comprise:

- ✓ **Tests of details:** Tests of details may be appropriate to gain information about account balances (for example, inventory or trade receivables), particularly verifying the assertions of existence and valuation.
- ✓ **Substantive analytical procedures:** Analytical procedures tend to be appropriate for large volumes of predictable transactions (for example, wages and salaries, revenue)

Note: *Students are only required to list.*

QUESTION 14

No	Answer and mark allocation	Total Marks
a	(i) Explain the term "**Audit documentation**" and describe any **Two (2)** benefits that auditors will obtain from quality prepared working papers in accordance with ISA 230 "Audit documentation. (*Award 1 Mark for correct explanation and 1 Mark for each correct benefit stated)* (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. *(Award 1 Mark for a well explained difference and 1 Mark for each correct example given)*	**6**
b	(i) Define the term "**Audit evidence**" and explain the difference between sufficiency and appropriateness of the audit evidence in in accordance with ISA 500 "**Audit Evidence**". (*Award 1 Marks for explanations and 2 Marks for a well stated difference*) (ii) Identify **Four (4)** factors that the auditor influences the auditors' judgment in regard to the sufficiency,	**7**

No	Answer and mark allocation	Total Marks
	appropriateness of audit evidence. (*Award 1 mark for each correct identified factor*)	
c	Explain the meaning of Computer-assisted audit techniques (CAATs) and discuss any Three (3) benefits and Two (2) challenges associated with using Computer-assisted audit techniques (CAATs) during the audit of financial statements. *(Award 2 marks for a well explained meaning and 1 mark for each correct benefit/challenge stated)*	**7**
	Total	**20**

Model answers:

a) According to ISA 230, "Audit documentation":

(i) -Audit Documentation:

In accordance with ISA 230, Audit documentation is the record of audit procedures, relevant audit evidence obtained and conclusions reached in connection with the performance of the audit. The term 'working papers' is also used sometimes.

-Benefits that auditors will obtain from quality prepared working papers:

- ✓ The reporting partner needs to be able to satisfy himself that work delegated by him has been properly performed. The reporting partner can generally only do this by having available detailed working papers prepared by the audit staff who performed the work.
- ✓ Working papers will provide, for future reference, details of audit problems encountered, together with evidence of work performed and conclusions drawn in arriving at the audit opinion. This can be invaluable if, at some future date, the adequacy of the auditors' work is called into question in the event of litigation against them by either the client or some third party.
- ✓ Good working papers will not only assist in the control of the current audit, but will also be invaluable in the planning and control of future audits.
- ✓ The preparation of working papers encourages the auditors to adopt a methodical approach to their audit work, which in turn is likely to improve the quality of that work.

(ii) Difference between permanent and current as used by the auditor during audit documentation

For recurring audits, working papers may be split between:

- ✓ **Permanent:** Permanent audit files contain information of continuing importance to the audit and they contain information such as Engagement letters, new client questionnaire, The memorandum and articles, Other legal documents such as prospectuses, leases, sales agreement, Details of the history of the client's business, Board minutes of continuing relevance, Previous years' signed accounts, analytical procedures and management letters, accounting systems notes, previous years' control questionnaires.

- ✓ **Current audit files** contain information of relevance to the current year's audit and they should be compiled on a timely basis after the completion of the audit and should contain

Current audit files should contain information such as financial statements Accounts checklists, Management accounts, Details Reconciliations of management and financial accounts, A summary of unadjusted misstatements, Report to partner including details of significant events and misstatements, Review notes Audit planning memorandum, Time budgets and summaries, Representation letter Management letter, Communications with third parties such as experts or other auditors.

Current audit files also contain working papers covering each audit area. These should include A lead schedule including details of the figures to be included in the financial statements, Problems encountered and conclusions drawn, Audit programmes, Risk assessments, Sampling plans, Analytical procedures, Details of substantive tests and tests of control.

(i) **-**In Accordance with ISA 500, **Audit evidence** is all of the information used by the auditor in arriving at the conclusion on which the auditor's opinion is based. Audit evidence includes the information contained in the accounting records underlying the financial statements and information obtained from other sources, such as confirmations from third parties.

-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 on which to base the auditor's opinion. In accordance with ISA 500:

-Sufficiency of the audit evidence is the **measure of the quantity** of audit evidence and the quantity of evidence required will be affected by the level of risk in the area being audited, and the quality of evidence obtained, while the **Appropriateness of the audit evidence** is the measure of **the quality or relevance and reliability** of the audit evidence.

(ii) **The following are factors that that influence sufficiency, appropriateness of the audit evidence in accordance with ISA 500 “Audit Evidence”:**

- Risk assessment
- Materiality of the item being examined
- Experience gained during previous audits
- The source and reliability of information available

b) -Computer-assisted audit techniques (CAATs) are applications of auditing procedures to be applied using the computer as an audit tool. They consist of audit software and test data.

Advantage of using CAATs:

- ✓ Increased capability for audit testing: Large volumes, up to 100%, of information can be tested, thereby reducing or even eliminating sampling risk.
- ✓ Tasks which are manually impossible can be carried out: Using the computer to trace key controls and processes where there is no visible audit trail.
- ✓ Cost-effectiveness: Although up-front costs may be considerable, CAATs can often be used again in subsequent audits.
- ✓ Eliminated repetitive work: This can increase job satisfaction for auditors and frees them up to apply professional judgement to key areas.
- ✓ Improved Knowledge of client systems: This is an important by-product that enhances the auditor's knowledge of the client and aids future audit planning.
- ✓ Results from CAATs can be compared with results from traditional testing: If the results correlate, overall confidence is increased.

Challenges associated with the use of CAATs:

- ✓ Setting up the software needed for CAATs can be time consuming and expensive.
- ✓ Audit staff will need to be trained so they have a sufficient level of IT knowledge to apply CAATs.
- ✓ Not all client systems will be compatible with the software used with CAATs.
- ✓ There is a risk that live client data is corrupted and lost during the use of CAATs.
- ✓ Information in real-time systems is constantly changing.
- ✓ Testing can be limited by the data held on the system.
- ✓ There is a risk of over-reliance on 'infallible' computerisation of audit procedures.
- ✓ Auditor judgement must still be applied throughout the testing process

QUESTION 15

No	Answer and mark allocation	Total Marks
a	In accordance with ISA 530 “Audit sampling”, Explain the meaning of “Audit sampling” and outline **two** circumstances under which 100% testing may be appropriate for certain substantive procedures during the audit of financial statements. (*Award for a well explained meaning and 1 mark for each stated correct circumstance*)	**4**
b	Explain **Two (2)** techniques the auditor may use to gain an understanding of the client’s accounting systems (Award *2.5 marks for each well explained techniques)*.	**5**
c	Discuss any **Four (4)** tests of controls to be performed by the auditor to test the design and effectiveness of internal controls	**4**

No	Answer and mark allocation	Total Marks
	over the client's sales system. (Award *1 mark for each valid test of controls discussed).*	
d	List any **Four (4)** important objectives of internal control relating to non-current assets. (*Award 1 mark for each sated valid control objective)*	**4**
e	Explain any **Three (3)** principal substantive audit procedures the auditor should perform during the audit of bank balances (Award *1 mark for each valid audit procedure*)	**3**
	Total	**20**

Model answers

a) Meaning of Audit Sampling and Circumstances under which 100% testing of the population may be appropriate for certain substantive procedures:

- **Meaning of Audit Sampling:**

In accordance with ISA 530, defines Audit sampling as 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.

- **Circumstances under which 100% testing of the population may be appropriate for certain substantive procedures:**

Auditors are unlikely to test 100% of items when carrying out tests of controls, but 100% testing may be appropriate for certain substantive procedures. In accordance with ISA 530 "Audit sampling provides for circumstances where 100 % testing of transactions in the population may be appropriate as follow:

✓ When the population is made up of a small number of high value items such as if non-current assets comprised a building and two vehicles.
✓ Inherent and control risks are high and other means do not provide sufficient appropriate audit evidence,
✓ When the repetitive nature of a calculation or other process performed automatically by an computer information system makes a 100% examination cost effective, for example, through the use of computer-assisted audit techniques (CAATs)

b) Principal substantive audit procedures the auditor should perform during the audit of bank balances:

- ✓ Obtain standard bank confirmations from each bank with which the client conducted business during the audit period to confirm completeness, existence and valuation of balances.
- ✓ Verify arithmetic of bank reconciliation to ensure accuracy.
- ✓ Trace cheques/transactions shown as outstanding from the bank reconciliation to the cash book prior to the year end, and obtain explanations for any large or unusual items not cleared at the time of the audit to confirm cut-off was correctly applied.
- ✓ Compare cash book(s) and bank statements in detail for the last month in the year, and trace items outstanding at the reconciliation date to bank reconciliations to provide evidence that all reconciling items have been identified.
- ✓ Obtain satisfactory explanations for all items in the cash book for which there are no corresponding entries in the bank statement and vice versa.
- ✓ Verify balances per the cash book according to the bank reconciliation with cash book, bank statements and general ledger to confirm consistency. This provides evidence of correct valuation and accuracy.
- ✓ Verify the bank balances with reply to standard bank letter and obtain explanations for any variance.
- ✓ Determine whether the bank accounts are subject to any restrictions by making enquiries of management as this may affect presentation.

c) Techniques the auditor may use to gain an understanding of the client's accounting systems:

- ✓ **Inquiry:** This is done discussing with client's staff and management
- ✓ **Observation:** This is done by observing (watching) the process and staff operating the system
- ✓ **Inspection:** This is done by reviewing documentation produced by the system

d) Four (4) important Control objectives relating to non-current assets:

The most important objectives of internal control relating to non-current assets are:

- ✓ To ensure non-current assets are properly accounted for and recorded
- ✓ To ensure Security arrangements over non-current assets are sufficient
- ✓ To ensure non-current assets are maintained properly
- ✓ To ensure non-current asset acquisitions are authorised
- ✓ To ensure non-current asset disposals are authorised and proceeds of disposals are accounted for
- ✓ To ensure depreciation rates are reasonable
- ✓ To ensure all income from income-yielding non-current assets is collected

e) Tests of controls to be performed by the auditor on client's sales system:

The tests of controls of the sales system will be based around Selling (authorisation), Goods outwards (custody), and Accounting (recording and valuation). The following are principal tests of controls auditor to test the design and effectiveness of internal controls over the client's sales system:

- ✓ Review the organisation chart and allocation of responsibilities and assess whether segregation of duties is operating
- ✓ Verify that references are being obtained for a sample of new customers by reviewing customer files
- ✓ Verify a sample of new accounts on the sales ledger to confirm they have been authorised by senior staff
- ✓ Examine computer application controls for credit limits
- ✓ For a sample of customer orders obtain evidence that they have been matched with production orders and despatch notes
- ✓ Verify that price lists and terms of trade are properly documented, authorised and communicated
- ✓ Obtain evidence of authorisation of goods despatched
- ✓ Review and test the entity's procedures for accounting for numerical sequences of despatch notes and inspect despatch notes to confirm that they are sequentially numbered.
- ✓ Examine delivery notes for evidence of confirmation of receipt of goods by customers
- ✓ Obtain evidence that procedures relating to the accuracy of invoices have been performed (eg Evidence that prices have been matched to the price list, evidence that calculations have been reperformed, evidence that discounts have been authorised)
- ✓ Review and test the entity's procedures for accounting for numerical sequences of invoices and inspect invoices to confirm that they are sequentially numbered.
- ✓ Review and observe procedures for matching of invoices to despatch notes and reperform a sample
- ✓ Obtain evidence of authorisation of credit notes.
- ✓ Evaluate procedures for the preparation of customer statements
- ✓ Review supplier statement reconciliations produced by the audit client
- ✓ Reperform a sample of supplier statement reconciliations produced by the audit client to determine whether they have been performed accurately
- ✓ Review control account reconciliations to the receivable's ledger produced by the client
- ✓ Reperform a sample of control account reconciliations to the receivables ledger to determine whether they have been performed accurately.
- ✓ Confirm authorisation of irrecoverable receivables allowances/write offs.

End of marking guide and model answers