
CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATION

S3.4: AUDIT AND ASSURANCE

DATE: TUESDAY 28, NOVEMBER 2023

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

XYZ & Associates Ltd has been appointed by the Board of Directors of ABC Group Ltd to conduct the audit of its financial statements for the year 2022. The Audit partner has determined the level of audit risk for the client as 5% and the risk assessment of the same client has shown that the inherent risk stands at 60% while the control risk stands at 40%.

Based on the audit risk model, **what level of detection risk should be stated for ABC Group Ltd?**

- A The level of detection risk is 30%
- B The level of detection risk is 13.3%
- C The level of detection risk is 4.8%
- D The level of detection risk is 20.8%

(2 Marks)

QUESTION TWO

With reference to ISA 315, It is stated that the auditor shall identify and assess the risks of material misstatement at the level of the financial statements and assertions.

Which steps among the following are undertaken by the auditor to conduct that exercise?

- (i) Identify risks throughout the process of obtaining an understanding of the entity.
- (ii) Relate the risks to what can go wrong at the assertion level.
- (iii) Consider whether the risks are of a magnitude that could result in material misstatement.
- (iv) Prepare the detailed audit approach in a professional manner.
- (v) Consider a likelihood of the risks causing a material misstatement.

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

(2 Marks)

QUESTION THREE

During the identification and assessment of risks related to the material misstatement, auditors may qualify some risks to be significant risks according to their professional judgement.

Which among of the following are the factors indicating that a risk might be a significant risk?

- (i) The complexity of the business transaction.
- (ii) The degree of subjectivity in the financial information.

(iii) It is an unusual business transaction.

(iv) Risk of fraud.

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

(2 Marks)

QUESTION FOUR

With reference to ISA 530, auditors are faced by sampling risk during their audit assignment. It is in that perspective that Umoja Partners Ltd always determines the sampling risk while auditing the financial statements of its clients to analyze whether the auditor's conclusion based on the sample of a certain size may be different from the conclusion that would be reached if the entire population were subjected to the same audit procedure.

The audit partner of the same auditing firm has set the level of audit risk for one of its clients as 3%, the inherent risk is 85%, the control risk stands at 70% and in addition the non-sampling risk has been identified at 10%.

Based on the audit risk model used in audit sampling, **what level of sampling risk should be prescribed for that client?**

- A The level of Sampling risk is 35.2%
- B The level of Sampling risk is 42.5%
- C The level of Sampling risk is 50.4%
- D The level of Sampling risk is 16.8%

(2 Marks)

QUESTION FIVE

During the audit exercise, an auditor has a number of sampling methods available to him to select an appropriate audit sample, and among those methods he/she can choose from includes haphazard selection method.

Which definition among the following is appropriate in defining a haphazard selection method in audit sampling?

- A It is a sampling method that may be used to establish whether certain items have particular characteristics.
- B It is a sampling method whereby an auditor himself selects items at random. It may be an alternative to random selection provided auditors are satisfied that the sample is representative of the entire population.

- C It is a sampling method that uses random number tables and computer generator to select the sample.
- D It is a sampling method involved in selecting items using constant interval between selections, the first interval having a random start.

(2 Marks)

QUESTION SIX

Which of the following advantages would be considered by auditors when sampling whether to use statistical sampling method?

- (i) Sample size is objectively determined, having regard to the degree of risk auditors are prepared to accept for each application.
- (ii) Unexpected bias in sample selection may invalidate the conclusions.
- (iii) The results of tests can be expressed in precise mathematical terms.
- (iv) It may be applied carelessly without due confirmation that the sample selected is acceptably random.

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

(2 Marks)

QUESTION SEVEN

ISA 300 states that auditor should develop an audit plan for the audit exercise to reduce audit risk to an acceptably low level. As a CAT student, **which among the following items should be considered during the audit plan for any organization?**

- (i) A description of the nature, timing and extent of planned risk assessment procedures sufficient to assess the risks of material misstatement.
- (ii) There is proper communication both within the audit team and with the audited entity.
- (iii) A description of the nature, timing and extent of planned further audit procedures at the assertion level for each material class of transactions, account balance and disclosure.
- (iv) Any other audit procedures required for the engagement to comply with ISAs.

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

(2 Marks)

QUESTION EIGHT

Which of the following is the correct distinction between audit plan and audit strategy?

- A Audit plan sets up audit conclusions while audit strategy sets out the strategy to come up with audit opinion.
- B Audit strategy is the key planning document looking at the overall approach to be taken in the audit, while audit plan details the procedures required to put that strategy into effect.
- C Audit plan defines the planned time to conduct the audit while audit strategy defines the strategy to come up with good conclusion.
- D Audit plan is prepared by the audit manager while the audit strategy is prepared by engagement partner.

(2 Marks)

QUESTION NINE

As CAT student, **which of the following benefits will be part of good audit planning?**

- (i) Appropriate attention is devoted to the important areas of the audit.
- (ii) Potential problems are identified and resolved on a timely basis.
- (iii) Work is completed effectively and efficiently.
- (iv) Appropriate staff are engaged on the audit team and, the proper tasks are assigned to the members of the audit team.

- A (i), and (ii)
- B (i), (ii) and (iv)
- C None of the above
- D All of the above

(2 Marks)

QUESTION 10

Before the audit exercise, auditors have to develop a structured audit approach for audit planning. **Which of the following do you think are the stages of a structured approach for audit planning?**

- (i) Making administrative decisions such as staffing and budgets.
- (ii) Updating knowledge of the client and assessing risks.
- (iii) Ensuring that ethical requirements are met, including independence.
- (iv) Establishing the overall strategy in terms of the scope, timing a direction of the audit.
- (v) Preparing the detailed audit approach.

- A (i), (ii) and (iii)
- B (i), (ii) and (iv)
- C None of the above
- D All of the above

(2 Marks)

SECTION B

QUESTION 11

Amani Ltd is a logistics company operating in the East African Countries with its headquarters in Kigali – Rwanda. Based on the management letter issued by auditors to the top management, the board of directors of the company instructed the management to address the internal systems weaknesses as highlighted by auditors by building up strong and reliable systems whereby internal controls will be examined in terms of various components of the accounting systems.

Required:

As a CAT student, **describe the expected internal controls on the following areas:**

- (a) Purchases system. (2 Marks)
- (b) Sales system. (2 Marks)
- (c) Stocks system. (2 Marks)
- (d) Non-Current assets & non-current liabilities as balance sheet items. (2 Marks)
- (e) Payroll system. (2 Marks)

(Total: 10 Marks)

QUESTION 12

Uzima CPA Ltd is an auditing firm that has been recently appointed by the Board of Directors of BORA Ltd to audit its financial statements as at 31st December 2022. The engagement letter has been signed to start the audit assignment as soon as possible to allow the client to file the Corporate Income Tax (CIT) not later than 31st March 2022.

During the audit exercise, the auditors of Uzima CPA Ltd have reviewed the financial statements of the company comprising the comprehensive income statement, balance sheet and cash flow statement as at 31st December 2022 and the review revealed that no depreciation has been provided on the plant, equipment and machinery during the year; 55% of receivables balances are bad debts which are not provided in the financial statements and the trade payables are significantly understated by 40%. In addition, Bora Ltd has been constructing its own offices that were still in progress at the end of the year, but they have been posted in the non-current assets instead of the building in progress. Auditors found that all misstatements are material and those discrepancies have a significant impact on the statement of financial position.

Things became worse while auditors realized going concern issues whereby Bora Ltd has been in the loss for the past ten (10) years.

Required

- (a) As a CAT student, **State and Explain by giving examples at least four (4) audit opinions that can be generally expressed by auditors in their audit report.** (6 Marks)
- (b) Based on the above case study, **what kind of audit opinion do you think auditors of Uzima CPA Ltd have expressed in their audit report?** (2 Marks)
- (c) **Explain the reasons for your audit opinion.** (2 Marks)

(Total: 10 Marks)

SECTION C

QUESTION 13

X&Y Partners Ltd has been recently appointed by the board of directors of Jambo Ltd to conduct the audit of its financial statements for the year 2022. During this audit assignment, auditors addressed a confirmation letter to the clients' local banks inquiring about details of bank balances and other matters at the end of the year 2022.

In addition, auditors addressed confirmation letters to various clients of the company on sampling basis to ascertain the accuracy of balances as shown in the debtors aging report.

Required:

With reference to the above statement:

- (a) Explain five (5) benefits behind obtaining confirmation from the bank and not from the client.** (5 Marks)
 - (b) What information you should request the bank to confirm to auditors about the bank confirmation?** (5 Marks)
 - (c) Explain five (5) audit procedures that auditors of X&Y Partners Ltd would use in the verification of accounts receivables of Jambo Ltd as auditors have already realized that the verification of accounts receivables is essential as they form a large portion of the assets of the company.** (10 Marks)
- (Total: 20 Marks)**

QUESTION 14

Keza Company Ltd is a business dealing with imports from China. The company has only one shareholder and who is its Managing Director. The company does not have a strong finance department because there is a high turnover of finance staff due to the misunderstanding with top management.

The management of the company decided to acquire an accounting system using accounting software in order to minimize accounting and finance issues that are prevailing in the company. Due to that staff turnover, the company does not have complete financial statements and some of the professional taxes have not been declared to Rwanda revenue Authority.

Keza Company Ltd got a turnover of more than FRW 600 million and as the requirement of Rwanda Revenue Authority, it has hired an auditing firm to conduct the audit of its financial statements and express an opinion accordingly.

Required:

- (a) **Clearly explain at least four (4) potential risks associated with the audit that financial statements of Keza Company Ltd may be materially misstated since they do not keep proper books of accounts.** (8 Marks)
- (b) The auditor is required to consider the information system relevant to financial reporting objectives, including the accounting system, based on the above scenario, **clearly explain the important elements that auditors need to understand for audit risks minimization of Keza Company.** (12 Marks)

(Total: 20 Marks)

QUESTION 15

GEN Partners Ltd is a new auditing firm operating in Rwanda for two years ago with two partners, three senior staff and two junior staff. The firm is aggressive on the market and started getting clients whereby it is conducting an audit of financial statements of Kigali Cement Ltd for the year ended 31 December 2022. As a new firm on the market that wants to increase and maintain its clients, it has to comply with ISA (International Standards on Auditing) requirement by designing and performing audit procedures during audit assignment in such a way to enable its auditors to obtain sufficient and appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

Required:

With reference to the above statement:

- (a) **Distinguish the terms "Sufficiency" and "Appropriateness" as both are applied in audit evidence** (4 Marks)
- (b) **Distinguish the terms "Audit evidence" and "Audit plan" as applied in the audit of financial statements of organizations by giving tangible examples.** (4 Marks)
- (c) **Describe at least six (6) verification / audit techniques that will be used by auditors of GEN Partners Ltd during their audit exercise and explain what type of item could be audited by each method.** (12 Marks)

(Total: 20 Marks)

End of questions paper