



CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATION

S3.4 AUDIT AND ASSURANCE

DATE: THUESDAY 26, NOVEMBER 2024

MARKING GUIDE AND MODEL ANSWERS

SECTION A

Marking guide

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

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

Model Answer

1. The Correct Answer is C

Information acquired in the course of professional work should not be disclosed except where: Consent has been obtained from the client, employer or other proper source; There is a public duty to disclose; or there is a legal or professional right or duty to disclose. **The Correct Answer is C** official requirement from the engagement partner is not among the exceptions to when acquired in the course of professional work can be disclosed.

Under professional duty and confidentiality section, information acquired in the course of professional work should not be disclosed except where:

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

2. The Correct Answer is D

Ability to perform the work; Relationship with client; Engagement economics are all among the factors for consideration by the audit while conducting client acceptance procedures.

3. The Correct Answer is A

ISA 530 is about Audit sampling

Audit evidence is ISA 500

Auditing accounting estimates, including fair value accounting estimates and related disclosures is ISA 540

Evaluation of misstatements identified during the audit is ISA 450

4. The Correct Answer is D

Emphasizing to audit staff the need to maintain professional skepticism; Assigning additional or more experienced staff to the audit team; Using experts; Incorporating more unpredictability into the audit procedures are all among the actions to be undertaken by the audit firm in formulation of overall responses to the identified risk of material misstatement.

5. The Correct Answer is B

In accordance with ISA 230, The degree of supervision exposed to the engagement member by the audit supervisor or audit partner is not among the factors that affect the form and content of working papers. Other options in A, B and C are not correct as they are among factors which affect the form and content of working papers as listed below:

- The nature of the procedures to be performed
- Size and complexity of the entity
- The identified risks of material misstatements
- The extent of judgement required in performing the work and evaluating the results
- The significance of the audit evidence obtained
- The nature and extent of exceptions identified
- The need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained
- The audit methodology and tools used

6. The Correct Answer is B

In accordance with IAS 2 Inventories; Inventory should be valued at the lower of cost and net realizable value. Option A, C and D are not corrected for they are not valid, only used to disrupt the candidates.

7. The Correct Answer is A

• Option A:

Matching requisition notes to work-in-progress (WIP) figures is not relevant to the cut-off principle. It is more about internal inventory control and production tracking, not the recording of transactions in the correct period. **This does not test cut-off.**

• Option B:

Matching goods dispatched notes (GDNs) to sales invoices ensures that revenue is recognized in the correct accounting period. **This is a valid cut-off test for sales.**

• Option C:

Matching GDNs to sales invoices and cross-checking with the sales ledger is more focused on testing completeness (i.e., ensuring all sales are recorded in the ledger) rather than the timing of transactions. This primarily tests completeness, not cut-off. Although Option C focuses on **completeness**, it can indirectly contribute to cut-off testing since ensuring all GDNs are invoiced may help verify that revenue has been recorded in the appropriate period.

• Option D:

Matching goods received notes (GRNs) with purchase invoices ensures that liabilities are recorded in the correct accounting period. **This is a valid cut-off test for purchases.**

8. The Correct Answer is C

Examination of the suppliers' invoices accuracy by recalculation and comparison of records in books of accounts is a substantive audit procedure not a test of control.

Other options in A, B and D for Observation of controls to consider the manner in which the control is being operated; Reperformance of a control procedure like reconciliation of bank accounts, to ensure they were correctly performed by the entity; Examination of evidence of management views like minutes of management meetings are all tests of controls.

9. The Correct Answer is A

Inherent risk is 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.

B is the definition of audit risk; C is the definition of a control risk while D describes the detection risk.

10. The Correct Answer is A

All scenarios given are among the considerations of engagement partner with regards to ensuring communication between client staff and audit staff, hence the right answer is A.

SECTION B

QUESTION 11

Marking guide

Maximum marks

- a) In line with the above, Explain Six substantive audit procedures you would perform on purchase and payables system of M&C Ltd. *(1 Mark per each valid substantive audit procedure relevant to purchase and payables system).* (6 marks)
- b) Enumerate the importance of Segregation of duties and Bank reconciliation as the key controls in any purchase and payables system of a company. *(1 Mark per each point of importance; 2 marks maximum for segregation of duties and 2 marks maximum for bank reconciliation).* (4 marks)

Total marks

(10 Marks)

Model answer

a) Substantive audit procedures you would perform on purchase and payables system of M&C Ltd:

- Review weekly and monthly purchases and related expenditure account to identify any significant fluctuations and discuss with the Finance Manager.
- Discuss with the Finance Manager whether there have been any changes in the key suppliers used and compare this to the purchase ledger to assess completeness and accuracy of purchases.
- Recalculate the accuracy of a sample of purchase invoice totals and related taxes and ensure expense has been included in the correct account.
- On a sample basis, Select GRNs just before and after year end and agree to the purchase day book to ensure that expense is recorded in correct accounting period.
- Select a sample of goods received notes from throughout the year, and agree them to purchase invoices and purchase day book to ensure the completeness of purchases.
- Recalculate the prepayments and accruals charged at the year end to ensure the accuracy of the expense charge included in the statements of profit or loss.
- Recalculate the bank reconciliation done by the account officer and trace the reasonableness of the reconciling items that left uncleared till the year end.

b) the importance of Segregation of duties and Bank reconciliation as the key controls in any purchase and payables system of a company

Segregation of duties

- Segregation of duties is important because the more people that are involved in all the stages of processing a transaction, the more likely it is that fraud or error by a single person will be identified.
- The more people that are involved, the less the chances of fraudulent collusion between them.

Bank reconciliation

- It is important because it reconciles the business's records of cash held at bank with the bank's records of cash held at bank.
- It helps to identify accounting errors such as duplicate payments, lost checks, and other human-made mistakes during data entry.
- It prevents fraud by flagging unrecorded transactions and prompt investigation.
- It reveals bank errors like unauthorized fees and incorrect transactions recorded.
- Bank reconciliation help to monitor cashflow so that the entity may be able to engage purchases or recognizing liabilities in the books of accounts.

QUESTION 12

Marking guide

Maximum marks

- a) With the use of practical examples, Differentiate a fraud and an error. *(1 mark per each definition and 1 mark per at least one practical example of fraud and error).* (4 Marks)
- b) Discuss any THREE factors the auditors should consider when using analytical procedures as substantive procedures. *(2 marks each explained factor to consider).* (6 Marks)

Total marks

(10 Marks)

Model Answers

- a) **Fraud:** It is an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

Example: Finance Director submits false invoices that he pretends are from a supplier, and then he approves them for payment, knowing the payment will actually go into a bank account belonging to him.

Error: It is an unintentional misstatement in the financial statements, including the omission of an amount or a disclosure.

Example: An accountant has wrongly recognized a newly asset of Frw 535,000,000 as erroneously recorded it as Frw 355,000,000 in the books of accounts.

b) Factors the auditors should consider when using analytical procedures as substantive procedures:

1. The suitability of using substantive analytical procedures given the assertions

Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time.

2. The reliability of the data, whether internal or external, from which the expectation of recorded amounts or ratios is developed

Source: information is more reliable when it is obtained from independent sources outside the entity.

Comparability: broad industry data may need to be supplemented to be comparable to that of an entity that produces and sells specialised products.

Nature and relevance: whether budgets have been established as results to be expected rather than as goals to be achieved. Controls over preparation: eg review and maintenance of budgets.

3. Whether the expectation is sufficiently precise to identify a material misstatement at the desired level of assurance

Accuracy with which results can be predicted: the auditor would expect greater consistency in comparing gross profit margins than in comparing research or advertising costs.

Degree to which information can be disaggregated: substantive analytical procedures may be more effective when applied to financial information on individual sections of an operation.

Availability of information: financial (budgets or forecasts)/non-financial (eg the number of units produced or sold). The frequency with which a relationship is observed, eg monthly/annually.

4. The amount of any difference of recorded amounts from expected values that is acceptable

The auditor considers the amount of difference from expectation that can be accepted without further investigation. This is affected by risk and materiality assessments.

The auditor also needs to consider the assessment of the risk of material misstatement – where controls are weak the auditor may place more reliance on tests of details.

SECTION C

QUESTION 13

Marking guide

Maximum marks

- a) In line with the information provided above, Suggest Two test of controls that you would perform on each of the above assertions. *(1 mark per each valid test of control provided on each assertion, maximum 2 marks in total for each assertion).* (10 Marks)
- b) In accordance with the above, discuss any Five reasons that may have caused disagreement on receivables confirmation balance by Wilkes Ltd . *(1 mark on each factor).*

(10 Marks)

Total marks

(20 Marks)

Model Answers

- a) **Test of controls that you would perform on each of the above assertions**

Assertion	Test of control
Occurrence	<ul style="list-style-type: none">- Verify that references are being obtained for a sample of new customers by reviewing customer files - For a sample of customer orders obtain evidence that they have been matched with production orders and dispatch notes. - Obtain evidence of authorization of goods dispatched e.g. signature of dispatch note. - Review and test the entity's procedures for accounting for numerical sequences of dispatch notes and inspect dispatch notes to confirm that they are sequentially numbered. - Examine delivery notes for evidence of confirmation of receipt of goods by customers e.g. customer signature
Completeness	<ul style="list-style-type: none">- Review and test the entity's procedures for accounting for numerical sequences of dispatch notes and inspect dispatch notes to confirm that they are sequentially numbered. - For a sample of customer orders obtain evidence that they have been matched with production orders and dispatch notes. - Obtain the open order file and review a sample of reconciliations done on it, reperform a sample of reconciliations.

Assertion	Test of control
	<ul style="list-style-type: none"> - Inspect the open order file check the unfilled order. - Review control account reconciliations to the receivable's ledger produced by the client.
Accuracy	<ul style="list-style-type: none"> - Obtain evidence that procedures relating to the accuracy of invoices have been performed e.g. evidence that prices have been matched to the price list, evidence that calculations have been reperformed, evidence that discounts have been authorized. -Reperform a sample of control account reconciliations to the receivables ledger to determine whether they have been performed accurately. - Review and observe procedures for matching of invoices to dispatch notes and reperform a sample.
Cut-off	<ul style="list-style-type: none"> - Compare the dates of sales invoices with dates of goods dispatch notes - Compare dates of sales invoices with dates recorded in the sales ledger.
Classification	<ul style="list-style-type: none"> - Review and test the entity's procedures for accounting for numerical sequences of dispatch notes and inspect dispatch notes to confirm that they are sequentially numbered. - Review and test the entity's procedures for accounting for numerical sequences of invoices and inspect invoices to confirm that they are sequentially numbered. - Check whether the sales invoices were recorded in proper ledger in the books of accounts.

b) Five reasons that may have caused disagreement on receivables confirmation balance by Wilkes Ltd :

Disagreements can arise for the following reasons.

- **There is a dispute between the client and the customer.** The reasons for the dispute would have to be identified, and provision made if appropriate against the debt.

- **Cut-off problems** exist, because the client records the following year's sales in the current period or because goods returned by the customer in the current period are not recorded in the current period. Cut-off testing may have to be extended.
- **The customer may have sent the monies before the period end**, but the monies were not recorded by the client as receipts until after the period end. Detailed cut-off work may be required on receipts.
- **Monies received may have been posted to the wrong account** or a cash-in-transit account. Auditors should verify whether there is evidence of other mis posting. If the monies have been posted to a cash-in-transit account, auditors should ensure this account has been cleared promptly.
- **Customers who are also suppliers may net-off balances owed and owing.** Auditors should confirm that this is allowed.
- **Teeming and lading, stealing monies** and incorrectly posting other receipts so that no particular customer is seriously in debt is a fraud that can arise in this area. If auditors suspect teeming and lading has occurred, detailed testing will be required on cash receipts, particularly on prompt posting of cash receipts.

QUESTION 14

Marking guide

Maximum marks

- a) Elaborate any Five substantive audit procedures that you would perform on long-term borrowing and current liabilities balances presented in Barcelona Co statement of financial position. *(1 mark for a valid substantive audit procedure, 5 marks maximum for non-current liabilities and 5 marks maximum on current liabilities).* (10 marks)
 - b) (i) In accordance with the above ISA, Define the term an “Accounting estimate”. (1 mark)
(ii) Discuss on how the accounting estimates put on financial statements can be tested *(1 mark per way to test accounting estimates).* (4 marks)
 - c) Enumerate at least FIVE points to be put in the checklist under Misstatement and errors section. (5 marks)
- Total marks** (20 Marks)

Model Answers

- a) **Five audit substantive procedures that you would perform on long-term borrowing and current liabilities balances presented in Barcelona Co statement of financial position.**

Component	Substantive Audit procedure
Long-term borrowings	<ul style="list-style-type: none"> - Obtain/prepare schedule of loans outstanding at the period end date showing, for each loan: name of lender, date of loan, maturity date, interest date, interest rate, balance at the end of the period and security. - Confirm repayments are in accordance with loan agreement to determine whether there may be any unrecognized penalties. - Examine cancelled cheques and memoranda of satisfaction for loans repaid to confirm that there are no unrecognized liabilities. - Verify that borrowing limits imposed either by the company's constitution or by other agreements are not exceeded. - Review minutes and cash book to confirm that all loans have been recorded. - Obtain direct confirmation from lenders of the amounts outstanding, accrued interest and what security they hold. - Examine signed Board minutes relating to new borrowings/repayments to ensure that transactions are authorized. - Verify interest charged for the period and the adequacy of accrued interest to confirm that interest is not misstated. - Review draft financial statements to ensure that disclosures for borrowings are correct and in accordance with accounting standards. Any elements repayable within one year should be classified as current liabilities.
Trade and other payables Bank overdraft	<ul style="list-style-type: none"> - Agree from the purchase ledger accounts to the list of balances and vice versa. - Reconcile the total of the list with the purchase ledger control account

Component	Substantive Audit procedure
	<ul style="list-style-type: none"> - Cast the list of balances and the purchase ledger control account. - Prepare and send trade payables balances confirmation requests to the suppliers to examine the accuracy and completeness of the presented balances in Barcelona's statement of financial position. - On a sample basis, agree the list of balances to the suppliers' invoices to confirm the accuracy of the listed balances. - Obtain detailed listing of overdrafts with information on lenders (banks), period of loans, principals, interest rates, repayments terms, security details, and other key terms of the loan agreements. Agree total to overdraft lead schedule. - Prepare and send the overdraft balance confirmation requests to the bank to check whether the presented balance at the year end ties up with the lender. - Verify interest charged for the period and its adequacy to confirm that interest is not misstated.

b) (i) **Accounting estimate:** It is a monetary amount for which the measurement, in accordance with the requirements of the applicable financial reporting framework, is subject to estimation uncertainty.

(ii) Financial statements may contain accounting estimates in a number of areas. These can be tested by:

- Determining whether events occurring up to the date of the auditor's report provide audit evidence regarding the accounting estimate.
- Testing how management made the accounting estimate and data on which it is based.
- Testing the operating effectiveness of the controls over how management made the accounting estimate, together with substantive procedures
- Using an independent estimate

c) **FIVE points to be put in the audit checklist under Misstatement and errors section**

- Has the effect of projected errors been assessed on the population as a whole?
- Were additional procedures undertaken where errors were found?
- Were misstatements assessed for implications of fraud?
- Has the aggregate of uncorrected misstatements been identified?
- Has the summary been assessed and considered in relation to the audit opinion?

- Has the treatment of significant, uncorrected misstatements been discussed with management?

QUESTION 15

Marking guide

Maximum marks

- In the context of third-party negligence claims, Explain THREE matters that an injured party must satisfy to the court in an action for negligence by an auditor . *(2 marks per each explained matter).* (6 Marks)
- In line with the requirement of professional duty of confidentiality, Explain FOUR cases in which voluntary disclosure may be made by the auditor. *(1 mark per each explained valid case).* (4 Marks)
- In the line with the above ISA, enumerate any FOUR factors that may indicate that the above would be necessary for the auditor in accordance with recurring audits. *(1 mark per each explained factor).* (4 Marks)
- Describe THREE matters you would consider and the investigations you would carry out before accepting appointment as auditors. *(1 Mark per each explained matter).* (3 Marks)
- Discuss on how the auditor would get an understanding the entity and its environment. *(1 Mark per each valid explained element).* (3 Marks)

Total marks

(20 Marks)

Model Answers

- THREE matters must an injured party satisfy to the court in an action for negligence by an auditor:**

Duty of care: There existed a duty of care enforceable at law. (This may not be the case without a contract.)

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.

- FOUR cases in which voluntary disclosure may be made by the auditor**

- Disclosure is reasonably necessary to protect the member's interests, for example to enable him to sue for fees or defend an action for, say, negligence.
- Disclosure is authorized by statute, for example where in an action a member is required to give evidence or discovery of documents.
- There is a public duty to disclose, say where an offence has been committed which is contrary to the public interest.
- Disclosure to non-governmental bodies (where statutory powers exist).

c) **FOUR factors that may indicate that the above would be necessary for the auditor in accordance with recurring audits:**

- Any indication that the entity misunderstands the objective and scope of the audit
- Any revised or special terms of the audit engagement
- A recent change of senior management
- A significant change in ownership
- A significant change in nature or size of the entity's business
- A change in legal or regulatory requirements
- A change in the financial reporting framework
- A change in other reporting requirements

d) **THREE matters you would consider and the investigations you would carry out before accepting appointment as auditors:**

- We should request the prospective client's permission to communicate with the auditors last appointed. If such permission is refused, we should decline nomination.
- On receipt of permission, we should request in writing of the auditors last appointed all information which ought to be made available to us to enable us to decide whether we are prepared to accept nomination. (Note. If no reply is received, a further letter may be sent which states that if no answer is received by a specified date, it will be assumed that there are no reasons not to accept nomination.)
- If fees are owed to the previous auditors, we may still accept nomination, although we may decide that the company will be slow to pay its bills and therefore decline nomination.

e) **How the auditor would get an understanding the entity and its environment**

- **Enquiry:** The auditor would enquire management, appropriate individuals within the internal audit function and others within the entity, those charged with governance may give insight into the environment in which the financial statements are prepared.
- **Analytical procedures:** Analytical procedures” means evaluations of financial information made by a study of plausible relationships among both financial and non-financial data. Analytical procedures also encompass the investigation of identified fluctuations and relationships that are inconsistent with other relevant information or deviate significantly from predicted amounts.

They include the considerations of comparisons with:

- Similar information for prior periods
- Anticipated results of the entity, from budgets or forecasts
- Predictions prepared by the auditors
- Industry information

A variety of methods can be used to perform the procedures ranging from simple comparisons to complex analysis using statistics, on a company level, branch level or individual account level as well as ratio analysis.

- **Observation and inspection:** The auditor may obtain an understanding of the entity and its environment through observing and inspecting the performance of entity's elaborated internal controls and their effectiveness in the client's operations.
- **Prior year knowledge:** Like the permanent audit file where information of continuing importance to the audit is kept. When the auditor intends to use information obtained from the auditor's previous experience with the entity and from audit procedures performed in previous audits, the auditor shall evaluate whether such information remains relevant and reliable as audit evidence for the current audit.
- **Client acceptance or continuance process:** In addition to information obtained from applying analytical procedures, other information obtained about the entity and its environment, the applicable financial reporting framework and the entity's system of internal control may be helpful in identifying the risks of material misstatement due to fraud. The discussion among team members may provide information that is helpful in identifying such risks. In addition, information obtained from the auditor's client acceptance and retention processes, and experience gained on other engagements performed for the entity, for example, engagements to review interim financial information, may be relevant in the identification of the risks of material misstatement due to fraud.
- **Discussion by the audit team:** The engagement partner and other key engagement team members shall discuss the application of the applicable financial reporting framework and the susceptibility of the entity's financial statements to material misstatement. When there are engagement team members not involved in the engagement team discussion, the engagement partner shall determine which matters are to be communicated to those members.
- **Information from the engagements undertaken for the entity:** This may be from previous engagements or from undertaking other types of assignment to the client of which the auditor might have acquired relevant information to help him get an understanding of the entity and its environment.

End of marking guide and model answers