
CERTIFIED ACCOUNTING TECHNICIAN
STAGE 3 EXAMINATIONS
S3.4 AUDIT AND ASSURANCE
DATE: TUESDAY 26, NOVEMBER 2024

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

Clients expect that their business affairs will be kept confidential by their accountants. However, this expectation may cause accountants problems. Maintaining client confidentiality may mean that auditors cannot 'blow the whistle' on malpractices of the client, and hence such malpractices will be allowed to continue.

Which of the following statements is not correct regarding the exceptions that apply to the disclosure of information acquired in the course of professional work by an accountant?

- A Consent has been obtained from the client, employer or other proper source
- B There is a public duty to disclose
- C There is an official requirement from the engagement partner
- D There is a legal or professional right or duty to disclose

(2 Marks)

QUESTION TWO

Most firms have client acceptance procedures reviewing the management integrity and risk of the prospective client.

Which of the following is among the factors for consideration by the audit firm while conducting client acceptance procedures?

- A Ability to perform the work
- B Relationship with client
- C Engagement economics
- D All the above

(2 Marks)

QUESTION THREE

The critical role of ISAs (International Standards on Auditing) is to ensure that the auditors maintain quality, consistency, and credibility in their audits. They also facilitate international comparability of financial statements by providing common auditing standards worldwide

Which of the following statement does describe ISA 530?

- A Audit sampling
- B Audit evidence
- C Auditing accounting estimates, including fair value accounting estimates and related disclosures.
- D Evaluation of misstatements identified during the audit.

(2 Marks)

QUESTION FOUR

The auditors must formulate an approach to the identified risks of material misstatement. They must formulate overall responses and detailed further audit procedures, which will comprise tests of controls and substantive procedures or substantive procedures only.

Which of the following is among the actions to be undertaken by the auditor in formulation of overall responses to the identified risk of material misstatement?

- i) Emphasizing to audit staff the need to maintain professional skepticism.
- ii) Assigning additional or more experienced staff to the audit team.
- iii) Using experts.
- iv) Incorporating more unpredictability into the audit procedures.

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

(2 Marks)

QUESTION FIVE

Auditors cannot record everything they consider. Therefore, judgement must be used as to the extent of working papers. The auditor must prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand.

In line with ISA 230 “*Audit documentation*”, which of the following is not among the factors that affect the form and content of working papers?

- A The nature of the procedures to be performed.
- B The degree of supervision exposed to the engagement member by the audit supervisor or audit partner.
- C 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
- D The extent of judgement required in performing the work and evaluating the results.

(2 Marks)

QUESTION SIX

In accordance with IAS 2 “Inventories”, which of the following statements is true in accordance with inventory valuation?

- A Inventory should be valued at the lower of cost and net realisable value minus fair value.
- B Inventory should be valued at the lower of cost and net realisable value.
- C Inventory should be valued at the lower of cost and market value minus cost to sale.
- D Inventory should be valued at the lower of cost and the estimated costs necessary to make the sale.

(2 Marks)

QUESTION SEVEN

Auditors should test cut-off by noting the serial numbers of GRNs and GDNs received and dispatched just before and after the end of the financial year, and subsequently verifying that they have been included in the correct period.

Which of the following audit procedures is not suitable for the test of cut-off principle?

- A Match up the requisition notes to the work in progress figures for the receiving department to ensure correctly recorded.
- B Match up the goods dispatched notes to sales invoices and ensure the income has been recorded in the correct period.
- C Match up the goods dispatched noted to the sales invoices and cross-check with sales ledger to ensure that all sales transaction were recorded.
- D Match up the goods received notes with purchase invoices and ensure the liability has been recorded in the correct period.

(2 Marks)

QUESTION EIGHT

Tests of controls are audit procedures 'designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.

Which of the following is not an audit procedure for test of controls?

- A Observation of controls to consider the manner in which the control is being operated.
- B Reperformance of a control procedure like reconciliation of bank accounts, to ensure they were correctly performed by the entity.
- C Examination of the suppliers' invoices accuracy by recalculation and comparison of records in books of accounts.
- D Examination of evidence of management views like minutes of management meetings

(2 Marks)

QUESTION NINE

Which of the following statements best describe the inherent risk?

- A 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 risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated?
- C Is 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.
- D Is the risk that the auditor's procedures will not detect a misstatement that exists in an assertion that could be material, individually or when aggregated with other misstatements.

(2 Marks)

QUESTION 10

The engagement partner is responsible for ensuring that an appropriate level of professional skepticism is applied by audit staff in the conduct of the audit and that there is proper communication both within the audit team and with the audited entity.

Which of the following is among the considerations of engagement partner with regards to ensuring communication between client staff and audit staff?

- i) Keeping in regular contact with both audit and client staff during the audit to assess the level of communication between them.
- ii) Attending the site during the audit to facilitate better communication if he feels that it is necessary.
- iii) Fostering lines of communication between client staff and audit staff during the period between audits, to ensure a good working relationship is built up between them.
- iv) The availability of audit staff throughout the engagement.

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

(2 Marks)

SECTION B

QUESTION 11

You have been given the following information by the Finance Manager of M&C Ltd during discussion on company purchases and payables system while conducting its audit for the year ended 31st December 2023. The client is specialized in textiles wholesale and retail business.

When there is insufficient inventory held, Inventory officer completes a purchase requisition form and send it to the staff in charge of purchase order for processing. He sends any orders above Frw 2 million to the purchasing Manager for authorization.

Receipts of goods from suppliers are processed by the stock team, they agree the delivery to the purchase order and check the quantity and quality of goods. They then complete a sequentially numbered goods received note (GRN). Every two weeks, GRNs are sent to the accounts department for payment processing.

Upon receipt of the invoice from the supplier, an accounts officer matches it to the relevant GRN and sends it to the staff in charge of purchase orders for review and process the payment request to finance department. The finance Manager is given the payment list, he authorizes it and then processes the bank payments. However, due to staff shortages in the accounts department, supplier statement and bank reconciliations are not done monthly but rather quarterly.

Required:

- a) In line with the above, **Explain Six substantive audit procedures you would perform on purchase and payables system of M&C Ltd.** (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.** (4 Marks)
- (Total: 10 Marks)**

QUESTION 12

- a) With the use of practical examples, **Differentiate a fraud and an error.** (4 Marks)
- b) *ISA 520 Analytical procedures*, Analytical procedures consist of 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.

Required:

Discuss any THREE factors the auditors should consider when using analytical procedures as substantive procedures.

(6 Marks)

(Total: 10 Marks)

SECTION C

QUESTION 13

You are a newly recruited assistant auditor at Abraham and Co, the audit manager has recently urged you that to come up with appropriate tests of controls for sales system, it could be useful to think back to the financial statement assertions which you consider to get an indication of what the controls should be for and also think what controls could be used to satisfy those assertions. He stressed that the main assertions for the audit of a company's sales system are Occurrence, Completeness, accuracy, cut-off and classification.

Required:

- a) In line with the information provided above, **Suggest Two test of controls that you would perform on each of the above assertions.** (10 Marks)
- b) At the year end, Jackson sent out receivables confirmation requests to a sample chosen by him of REM Group Ltd's receivables. From a sample of 12 accounts receivables, He obtained 11 replies. Of these 11, 10 agreed the balance that was in REM Group Ltd's sales ledger. He asked a member of her audit team to call the customer who has not yet replied as he reconciles the details of Wilkes Ltd who expressed the disagreement on confirmation balance and replied with a different balance from client's sales ledger records.

The details from the customer who stated a different balance from the sales ledger figure are given below:

Wilkes Ltd Balance per sales ledger: FRW 938,000

Balance per customer: FRW 692,000

Unexplained: (FRW 246,000)

Required:

In accordance with the above, **discuss any Five reasons that may have caused disagreement on receivables confirmation balance by Wilkes Ltd.** (10 Marks)

(Total: 20 Marks)

QUESTION 14

Your firm was appointed by Barcelon Co for the audit of its financial statements for the year ended 31st December 2023. The audit team leader believes that as you are currently pursuing Certified Accounting Technician (CAT) under ICPAR, you will be able to carry out the review of client's liabilities presented in the statement of financial position.

The following is an extract of non-current and current liabilities from Barcelona Co financial statements for the year ended 31st December 20223:

	2023	2022
	Frw Million	Frw Million
Non-current liabilities		
Long-term borrowings	558	450
Current liabilities		
Trade and other payables	765	630
Bank overdraft	120	45

Required:

- 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.** (10 Marks)

Hint: *Elaborate at least five audit procedures on long-term and five audit procedures on current liabilities components.*

- b) ISA 540 “Auditing accounting estimates”, states that Directors and management are responsible for making accounting estimates included in the financial statements. The risk of a material misstatement increases when accounting estimates are involved.

Required:

- i) In accordance with the above ISA, **Define the term an “accounting estimate”.** (1 Mark)
 ii) In line with the above ISA, **discuss how the accounting estimates made on financial statements can be tested.** (4 Marks)

- c) While completing the audit; Audit firms frequently use checklists to ensure that all final procedures have been carried out, all material amounts are supported by sufficient appropriate evidence, and so forth.

Required:

Enumerate at least FIVE points to be put in audit checklist under Misstatement and errors section. (5 Marks)

(Total: 20 Marks)

QUESTION 15

- a) In the context of third-party negligence claims, **Explain THREE matters that an injured part must satisfy to the court in an action for negligence by an auditor.** (6 Marks)
- b) In line with the requirement of professional duty of confidentiality, **Explain FOUR cases in which voluntary disclosure may be made by the auditor.** (4 Marks)
- c) ISA 210 “*Agreeing the terms of audit engagements*” states that on recurring audits, the auditor must assess whether the terms of the engagement need to be revised and whether there is a need to remind the entity of the existing terms.

Required:

In the line with the above ISA, **enumerate any FOUR factors which may indicate that the above requirement to the auditor would be necessary for the auditor in accordance with recurring audits.** (4 Marks)

- d) The directors of Sam & Sons Ltd have invited your firm to act as auditors for the year ended 31 December 2023. They plan to ask their current auditors to resign, since they are unhappy with the service they have been given.

Required:

Describe THREE matters you would consider and the investigations you would carry out before accepting appointment as auditors. (3 Marks)

- e) **Discuss on how the auditor would get an understanding of the entity and its environment.** (3 Marks)

(Total: 20 Marks)

End of Question Paper

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