
CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATIONS

S3.4: AUDIT AND ASSURANCE

DATE: TUESDAY, 29 MARCH 2022

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. Question paper should not be taken out of the examination room.

SECTION A

QUESTION ONE

Which among the following are the rights given to auditors by the Company's Act and International Standards of Auditing (ISAs) to audit the financial statements?

- i. Access to records: A right of access at all times to the books, accounts and vouchers of the company.
- ii. Information and explanations: A right to require from the company's officers such information and explanations as the auditors think necessary for the performance of their duties as auditors
- iii. Right to remuneration of audit fee.
- iv. Right to be given access to the internet connection of the client.
- v. Attendance at / notices of general meetings: A 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
- vi. Right to speak at general meetings: A right to be heard at general meetings which they attend on any part of the business that concerns them as auditors

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

(2 Marks)

QUESTION TWO

Integrated reporting (IR) gives a concise communication to stakeholders about how an organization's strategy, governance, performance and prospects in the context of its external environment lead to the creation of value in the short, medium and long term. Integrated Financial Reporting goes beyond the usual financial reporting to include additional informational such as corporate governance, sustainability, corporate social responsibility, performance and prospects etc.

In the wake of Integrated Reporting, **what is the responsibility of auditors in regard to providing assurance over non-financial information in regard to integrated financial reporting?**

- A Do nothing. This is not required by International Auditing Standards.
B Use Extended External Reporting (EER) Assurance guidance by the International Auditing and Assurance Standards Board (IAASB), which is used to describe engagements and to provide assurance on different forms of non-financial reporting, including integrated reporting, sustainability reporting and non-financial reporting about environmental, social and governance matters.

- C Accept and certify all information as presented by the client in the integrated reporting.
- D Refuse all audit clients that prepare integrated reporting.

(2 Marks)

QUESTION THREE

ISA 700 (Revised) Forming an opinion and reporting on financial statements provides that among others, **the following should be part of the auditor's report for the financial statements:**

- A Opinion, basis of opinion, key audit matters, responsibilities of management and those charged with governance for the financial statements, auditor's responsibilities for the audit of the financial statements, and report on other legal and regulatory requirements.
- B Opinion, basis of opinion, key audit matters, audit findings, responsibilities of management and those charged with governance for the financial statements, auditor's responsibilities for the audit of the financial statements, and report on other legal and regulatory requirements
- C Opinion, basis of opinion, key audit matters, audit findings, audit team, responsibilities of management and those charged with governance for the financial statements, auditor's responsibilities for the audit of the financial statements, and report on other legal and regulatory requirements
- D Opinion, basis of opinion, key audit matters, responsibilities of management and those charged with governance for the financial statements, auditor's experience, auditor's responsibilities for the audit of the financial statements, and report on other legal and regulatory requirements.

(2 Marks)

QUESTION FOUR

ISA 315 states that the auditor shall perform risk assessment procedures to provide a basis for identification and assessment of risks of material misstatement at the financial statement and assertion levels. The ISA gives guidance on performing these risk assessment procedures in order to obtain the required understanding of the business.

Which techniques among the following are provided by the standard on how to conduct enquiries of management and others within the entity in order to achieve the standards requirements?

- i. Analytical procedures
- ii. Observation and inspection
- iii. Prior period knowledge
- iv. Client acceptance or continuance process
- v. Requesting information from the company's competitors
- vi. Discussion by the audit team of the susceptibility of the financial statements to material misstatement

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

(2 Marks)

QUESTION FIVE

ISA 320: Audit Materiality states that determining materiality for the financial statements as a whole involves the exercise of professional judgement. At the planning stage, auditors will set a value level for planning materiality based on draft financial information available to them. However, this should be reviewed as the audit progresses and as any changes are made to the financial information. Generally, a percentage is applied to a chosen benchmark as a starting point for determining materiality for the financial statements as a whole.

Which of the following benchmarks and percentages is not appropriate in the calculation of materiality for the financial statements as a whole?

Value	percentage (%)
A Profit before tax	5
B Gross profit	1/2–1
C Revenue	1/2–1
D Total assets	5–10

(2 Marks)

QUESTION SIX

Which of the following controls would provide assurance that wages are paid to employees of a company, only for work carried out?

- i. Written authorization from an authorized personnel officer in respect of employee additions to and deletions from the payroll, and in respect of changes to rates of pay.
- ii. Segregation of duties between the processing of the wages payroll and the entering of the wages transactions into the accounting records.
- iii. Segregation of duties between the authorization of employee clock cards and the processing of the wages payroll.

- A (i) and (iii)
- B (ii) only
- C (ii) and (iii)
- D (iii) only

(2 Marks)

QUESTION SEVEN

ISA 315 Identifying and assessing the risks of material misstatement through understanding the entity and its environment defines internal control as the process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Which among the following entity's objectives are achieved through having strong internal control system in place?

- i. The reliability of its financial reporting
 - ii. Leadership and motivation of staff
 - iii. The effectiveness and efficiency of its operations
 - iv. Its compliance with applicable laws and regulations
- A (i), (iii) and (iv)
 - B (ii) and (iii) only
 - C (ii) and (iii) only
 - D (iv) only

(2 Marks)

QUESTION EIGHT

Which of the following is the correct definition of net realizable value for an inventory?

- A Expenditure which has been incurred in the normal course of business in bringing inventory to its present location and condition.
- B Estimated or actual selling price (net of trade discounts but before settlement discounts) less all further costs to completion and less all costs to be incurred in marketing, selling and distribution.
- C Estimated or actual selling price (net of settlement discounts but before trade discounts) less all further costs to completion and less all costs to be incurred in marketing, selling and distribution.
- D Purchase price including import duties, transport and handling costs and any other directly attributable costs, less trade discounts, rebates and subsidies.

(2 Marks)

QUESTION NINE

You are part of the audit team, and you were assigned to test controls over non-current assets for your client. **Which of the following procedures will be part of your testing of controls over the non-current assets?**

- i. Check whether the recorded assets actually exist and belong to the company.
- ii. Check whether the capital expenditure is authorized and reported.
- iii. Check whether disposals of non-current assets are authorized and reported.
- iv. Check whether the non-current assets are correctly accounted for.
- v. None of the above

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

(2 Marks)

QUESTION 10

The auditors of Uwineza Ltd recently completed their interim audit for the year ending 31 December 2020. They confined their work only to tests of control on accounting records to 30 June 2020 and concluded that controls were totally unreliable.

What will be the nature of the work carried out when conducting the final audit of the company's financial statements for the year ending 31 December 2020?

- A Substantive procedures on transactions for the whole accounting period and on the statement of financial position as at 31 December 2020, plus a review of the financial statements.
- B Tests of controls on the system and substantive procedures on transactions for the period from 1 July 2020 to 31 December 2020, plus a review of the financial statements.
- C Tests of controls on the system for the period from 1 July 2020 to 31 December 2020, substantive procedures on the statement of financial position as at 31 December 2020, plus a review of the financial statements.
- D Substantive procedures on the statement of financial position as at 31 December 2020, plus a review of the financial statements.

(2 Marks)

SECTION B

QUESTION 11

You are part of the audit team to audit the financial statements of Ahazaza Heza Technology (AHT) Ltd for the year ended 31 December 2020. AHT Ltd is a start-up company founded by three information systems developers to provide a wide range of Information Technology (IT) solutions from web design to new systems development.

Your Audit Manager at RST CPA Ltd has selected you to lead the audit field work team that is responsible for gathering audit evidence in line with ISA 500: Audit Evidence. As a CAT student, you are aware that the objective of ISA 500 is to ensure that auditor designs and performs audit procedures in such a way as to enable the auditor to obtain sufficient and appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

Required:

- (a) **Clearly identify on any five audit procedures that you will use to gather the audit evidence that meet the requirements of ISA 500: Audit evidence.** (5 Marks)
- (b) Your Audit Manager has instructed your team to use the computer-assisted audit techniques (CAATs) since AHT Ltd is an integrated company that has computerized processes. **What advantages to you foresee that your audit team and the client will benefit from the use of Computer-assisted audit techniques (CAATs)?** (5 Marks)
- (Total: 10Marks)**

QUESTION 12

You have completed the audit of Bugesera Rice Company (BRC) Ltd financial statements for the year ended 31 December 2020. You have compiled all the work by the team and your Audit Partner has reviewed and ascertained that work done meets ISA 230: Audit Documentation requirements.

Your Audit Partner has now requested you to archive the audit working papers for the audit of BRC Ltd financial statements for the year ended 31 December 2020 into permanent and current audit files.

Required:

- (a) **Identify at least 5 factors that could affect the size and form of audit working papers to ensure that the audit work documented is sufficient and appropriate to the circumstances of the matter being considered.** (5 Marks)
- (b) **Show the difference between the permanent and current audit files and give examples of what documents they may each contain.** (5 Marks)
- (Total: 10Marks)**

SECTION C

QUESTION 13

Your firm JZC CPA Auditors has been contracted by Majyambere Cooperative to audit its financial statements for the year ended 31 December 2020. Majyambere Cooperative is a farmers cooperative based in Nyamagabe District and conducts agri-business related activities. It has a market in Rwanda and in other various countries, including some in Europe and Asia.

You have recently read in the local newspaper that in May 2020, Majyambere Cooperative purchased 2 tractors and 1 motor vehicle to boost the productivity and facilitate the Cooperative to bring the agriculture produce to the market. The newspaper reported that the cooperative members accused leaders of misappropriation of the cooperative's assets as the purchase did not follow the tendering and approval procedures, and they further stressed that a fraud might have occurred. The cooperative board members and leaders however, deny any wrongdoing and insist that some of the tendering and approval procedures could not have been followed at the time as Nyamagabe District was under the lockdown due to Covid-19.

You are part of the audit team to audit the Majyambere Cooperative financial statements for the year ended 31 December 2020 and you were assigned to audit the Cooperative's purchases and non-current assets.

Required:

- (a) **Clearly show the control objectives and control activities expected at Majyambere Cooperative over the purchase of its non-current assets.** (10 Marks)

- (b) **Identify which information you expect to see in the non-current assets register for Majyambere Cooperative.** (5 Marks)

- (c) **What are the common accounting errors in recording non – current assets can you expect to occur at Majyambere Cooperative.** (5 Marks)

(Total: 20Marks)

QUESTION 14

Hellen is an Audit Associate at your firm XYZ CPAs Ltd. She has been assigned to conduct a physical inventory count to one of your clients; Ubaka Neza Ltd for the audit of its financial statements for the year ended 30 September 2020. Ubaka Neza Ltd is a cement production company used for construction purposes.

Kellen has approached you to advise her on how to properly conduct a physical inventory count. She also enquired from you as to why the physical inventory count is relevant to the audit of financial statements.

Required:

(a) Clearly explain to following to Kellen in regard to physical inventory count of Ubaka Neza Ltd:

- i) **Auditor's responsibility to conduct physical inventory count.** (2 Marks)
- ii) **Discuss the audit procedures to be conducted before, during and after the physical inventory count of Ubaka Neza Ltd.** (12 Marks)

(b) Assume that Kellen found damaged and obsolete inventory items during her physical inventory count. Identify the audit procedures to be conducted to ensure the accuracy and completeness of inventory. (6 Marks)

(Total: 20Marks)

QUESTION 15

ABC Manufacturing Company ltd is your audit firm's client based in Bugesera District, which specializes in the production of steel and other construction materials to the Rwanda and regional market. Your audit firm is NMP Associates ltd and you are part of the audit team to audit ABC Manufacturing Company Ltd financial statements for the year ended 30 June 2021.

Before the audit commences, your Audit Manager has briefed you and your team that following happened during the year:

- ABC Manufacturing Company ltd acquired for a loan of Rwf 100 million from the local bank to boost its production capacity.
- One of the main clients has complained that the company delivered steel worth Rwf 15 million which did not meet the quality standards. He requested the company take back the delivery and replace it. However, they refused to do so and now the client is threatening to sue ABC Manufacturing Company ltd in the courts of law.
- The local community members where ABC Manufacturing Company Ltd production is based have complained to the company and local authority over the smoke emission and other nuisance, but they report that company refused to address their concerns.

The community members have now decided to bring the issues to the attention of Rwanda Environment Management Authority (REMA) and the courts of law. They say that they need ABC Manufacturing Company ltd to appropriate and buy their land so that they can move outside the area.

Required:

- (a) Explain the substantive audit procedures to be conducted over ABC Manufacturing Company Ltd Company's acquisition of the loan. (5 Marks)
- (b) In line with IAS 37 Provisions, contingent liabilities and contingent assets, clearly: explain the following
- i) Define what is provision and contingent liability. (2 Marks)
 - ii) Audit procedures to be carried audit provisions and contingent liabilities for ABC Manufacturing Company Ltd. (10 Marks)
 - iii) Give other examples of accounting provisions and contingent liabilities (3 Marks)
- (Total: 20Marks)**

End of question paper

