



CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATIONS

S3.4: AUDIT AND ASSURANCE

DATE: TUESDAY 26, AUGUST 2025

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

You are part of the audit team for Green Harvest Ltd, a company engaged in agricultural exports. The financial year ended on 31st December 2024. While conducting your audit fieldwork in February 2025, several events have occurred that may impact the financial statements.

Which of the following events occurring after the reporting period (year ended 31 December 2024) would be classified as an adjusting event under IAS 10?

- A On 5 January 2025, a major customer owing FRW 80 million at year-end was declared bankrupt due to financial difficulties that existed at 31 December 2024.
- B On 10 January 2025, the company decided to issue new shares to raise capital for future expansion.
- C On 15 January 2025, a warehouse fire destroyed inventory purchased in January 2025.
- D On 20 January 2025, the company signed a contract to acquire a new subsidiary.

2 Marks

QUESTION TWO

Which of the following best describes the primary objective of internal control in a financial reporting context?

- A To eliminate all errors and fraud from the accounting system
- B To ensure that financial statements comply with tax regulations
- C To provide reasonable assurance regarding the reliability of financial reporting, compliance with laws and regulations, and effectiveness and efficiency of operations
- D To allow management to delegate responsibility for financial decisions to external auditors

2 Marks

QUESTION THREE

You are part of the audit team for SkyTech Solutions Ltd, a technology company with a financial year-end of 31 December 2024. The audit is in its final stages, and you are performing an overall review of the financial statements before the auditor's report is issued.

During your review, you notice that the company has reported a significant increase in profit, but there is no corresponding increase in revenue or reduction in major expenses compared to the prior year.

During the overall review of the financial statements, **what should the auditor primarily focus on in response to the unusual increase in profit?**

- A Issue the audit report immediately since the fieldwork is complete
- B Ignore the anomaly as long as no material misstatement was found during testing
- C Perform additional analytical procedures and discuss the matter with management
- D Ask the internal audit department to provide a final review before issuing the opinion

2 Marks

QUESTION FOUR

Which of the following best describes when an auditor may be held liable to a third party for negligence?

- A When the auditor intentionally misstates financial information in the audit report
- B When the auditor owed a duty of care, the third party relied on the audit report, and the auditor was negligent
- C When the third party is a shareholder, regardless of the auditor's knowledge of their reliance
- D When the auditor follows all professional standards but a third party suffers a financial loss

2 Marks

QUESTION FIVE

Which of the following situations is most likely to threaten an auditor's objectivity and independence?

- A The auditor refuses to accept a gift offered by the client's finance manager.
- B The auditor discloses a material fraud to management and those charged with governance.
- C The auditor maintains professional scepticism throughout the audit.
- D The auditor owns shares in the client company being audited.

2 Marks

QUESTION SIX

You are auditing FreshMed Pharmaceuticals Ltd for the year ended 31 December 2024. During the audit, you become aware of a potential violation of environmental regulations, as the company is allegedly disposing of waste improperly at one of its manufacturing plants. Management has not disclosed this matter in the financial statements or to those charged with governance.

What is the auditor's primary responsibility when they become aware of a potential legal or regulatory non-compliance during the audit?

- A Ignore the matter if it does not affect the financial statements directly
- B Immediately report the issue to regulatory authorities

- C Obtain an understanding of the nature and circumstances of the non-compliance and consider its impact on the financial statements
- D Resign from the audit engagement without taking further action

2 Marks

QUESTION SEVEN

Which of the following is not a primary aim of audit planning?

- A To ensure that the audit is performed in an effective and efficient manner
- B To identify and assess the risks of material misstatement
- C To detect all fraud and errors within the financial statements
- D To determine the nature, timing, and extent of audit procedures

2 Marks

QUESTION EIGHT

Which of the following is a key feature of an effective information system and internal control environment?

- A All accounting records are maintained manually to reduce system errors
- B Employees are given unrestricted access to all financial systems for flexibility
- C Only external auditors are responsible for implementing internal controls
- D Management regularly monitors controls and updates systems in response to risks

2 Marks

QUESTION NINE

You are auditing ValueMart Ltd, a retail company with a large volume of inventory stored across multiple warehouses. The company uses a perpetual inventory system, which updates inventory records in real time with each sale and purchase. During your audit for the year ended 31 December 2024, you notice inconsistencies between the inventory records and the physical stock count conducted in January 2025.

Which of the following is the most appropriate audit response to address discrepancies between the perpetual inventory system and the physical stock count?

- A Rely solely on the perpetual inventory records, as they are updated in real time
- B Adjust the financial statements based only on management's explanation
- C Assume the physical count is incorrect and ignore the variance
- D Investigate the discrepancies, perform test counts, and evaluate inventory valuation and control procedures

2 Marks

QUESTION 10

You are auditing BrightLight Electronics Ltd for the year ended 31 December 2024. During your testing, you identify several unusual journal entries made at year-end that significantly increase reported profits. Management explains these were made to correct errors found late in the accounting period.

Which of the following statements best describes the auditor's responsibility regarding fraud and error in this situation?

- A The auditor must assume all unusual entries are errors and accept management's explanations without further investigation
- B The auditor should investigate unusual journal entries thoroughly to determine if they represent error or potential fraud
- C The auditor only needs to consider fraud if it results in material misstatements
- D The auditor should report the unusual entries directly to regulatory authorities before discussing with management

2 Marks

SECTION B

QUESTION 11

You are an auditor of SMARTER & Associate an audit firm operating in Kigali, the firm is planning the next audit assignment of your new audit client. You are assigned by your Audit Manager to work on audit planning and materiality among others.

Required:

- a) Enumerate to your Audit Manager the stages involved in a structured approach to planning the audit of your new audit client. (4 Marks)**
 - b) Discuss the performance materiality and identify the factors that may affect the identification of an appropriate benchmark. (6 Marks)**
- (Total: 10 Marks)**

QUESTION 12

Expert metal Ltd is a local firm specialised in metal production across the country. Its head office is located in Muhanga District with four warehouses located in each province excluding southern province served by head office main stock.

You are a senior auditor in the team and your audit firm won the tender to review Expert metal Ltd's financial statements for the year ended 31 March 2025. During the review of the financial statements, you noted material misstatement due to omitted long term loan obtained during the year under review. Further, you got information that the company's two major customers declared bankruptcy with uncleared balances.

Required:

- a) The risk of material misstatement in the financial statements falls into two general categories of risk: inherent risk and control risk. Identify FOUR factors that may affect Inherent risk. (4 Marks)**
 - b) The auditor has to evaluate management's assessment of the entity's ability to continue as a going concern. Discuss THREE factors that management should consider when making an assessment of company's going concern. (3 Marks)**
 - c) Explain SIX audit procedures that would be carried under review of long-term loans (3 Marks)**
- (Total: 10 Marks)**

SECTION C

QUESTION 13

QUICK Cars Ltd is a local company specializing in logistics, warehousing, and the transport sector within the country and East African countries. The company uses its own vehicles and warehouses. It holds a large warehouse in each country and operates 100 trucks and trailers for business purposes. Your audit firm, NMG & Associates, is the auditor of QUICK Cars Ltd for the year ended 31 December 2024. Below is an extract from QUICK Cars Ltd's financial statements:

| Description | 31st December 2024 | 31st December 2023 |
|---------------------|--------------------------------------|--------------------------------------|
| | FRW “000” | FRW “000” |
| Good will | 10,000 | 8,000 |
| Trucks and trailers | 1,720,000 | 1,500,000 |
| Office equipment | 140,000 | 135,000 |
| Land and building | 920,000 | 890,000 |
| Inventory | 1,020,000 | 1,016,000 |

The following information comes to your attention during the audit:

1. A former employee of the company was dismissed due to misconduct. He is your friend in normal life and is approaching you to share the company's financial statements and his Human Resource file.
2. Three trucks recently acquired were not included in the company's fixed assets register for the year under review. These trucks are valued at FRW 360 million.
3. A depreciation charge of FRW 53 million was recorded for motor vehicles.
4. The Chief Finance Officer (CFO) and Director of Finance (DF) resigned in June 2024. Since then, the junior accountant has been acting as CFO, and two existing interns are working as the DF and junior accountant.
5. During the preliminary analytical review, you noted that the financial statements were not extracted from the General Ledger and Trial Balance.

Required:

- a) Briefly discuss TWO recognised exceptions to the duty of confidentiality. (4 Marks)
- b) A non-current asset register is an internal control tool that helps track assets, verify their existence, and ensure accuracy. What is the crucial information to be included under asset register? (6 Marks)
- c) Discuss the risk assessment procedures that NMG & Associates should use to obtain the understanding of QUICK Cars Ltd. (6 Marks)
- d) Differentiate Test of controls to Substantive procedures and discuss factors to consider when an auditor decides which procedures to use. (4 Marks)

(Total: 20 Marks)

QUESTION 14

STREAM Group Ltd is a holding company specializing in the manufacturing of electronic equipment. The company distributes its products in South America and Europe, using a long-term agreement signed with COCKAIR Ltd. All operations and processes at the group level are automated.

On 1 July 2024, the company acquired a company located in South Africa specializing in Air Cargo Ltd. Due to outdated technology in the newly acquired company, the Board of Directors decided to use manual processes until new systems are implemented. Below is an interim extract from Air Cargo Ltd's financial statements at the acquisition date:

| Description | 01 st July 2024 | 31 st December 2023 |
|-------------------------------|----------------------------|--------------------------------|
| | FRW "000" | FRW "000" |
| Revenues | 19,000,000 | 34,000,000 |
| Cost of sales | 8,000,000 | 14,000,000 |
| Good will | 200,000 | 180,000 |
| Property, Plant and Equipment | 980,000 | 740,000 |
| Copyright and Trademark | 120,000 | 100,000 |
| Receivables | 420,000 | 640,000 |
| Inventory | 1,020,000 | 1,016,000 |

Expert & Associates is your firm and is going to audit STREAM Group's consolidated financial statements and its subsidiaries for the year ended 31st December 2024. You are a senior auditor in the team and have been assigned to review the work done by other audit team members.

During the audit planning meeting with your audit partner, you agreed to subcontract an audit firm specializing in the use of audit software. The subcontracted firm will assist in the group audit where all operations and processes are automated.

For subsidiaries, including the newly acquired one during the year, the audit will be carried out by your firm, as most of the processes are done manually during the period under review.

Required:

- Discuss FOUR reasons why auditors use working papers to record their work, and why it is necessary for auditors to record all their work.** (6 Marks)
- Discuss sufficiency & appropriateness of audit evidence and enumerate FIVE reasons why an auditor can only give reasonable assurance that the financial statements are free from misstatement.** (7 Marks)
- Identify FOUR benefits and THREE difficulties of using audit software.** (7 Marks)

(Total: 20 Marks)

QUESTION 15

Healthy Supply Ltd is a local company specialized in the sale of agricultural products across the country. The company purchases these products from local farmers located in each district. The products are collected, stored, and sold to the big supermarkets in Kigali.

Business Model

The company has a self-service system where a supermarket in need of products, login through the company website and place an order. Once the order is submitted, it goes through the following workflow:

1. Customer Service Officer receives the order.
2. The order is processed by the Sales Office for pricing accuracy and customer credit limit checks.
3. If approved, it is sent to the Warehouse Manager for delivery and to the Finance Manager for invoicing.
4. Dispatch is done by company drivers together with a logistic officer.
5. Invoices are sent after dispatch, and payment terms are net 30 days.
6. The Accounts Receivable department monitors outstanding balances and follows up on overdue accounts.

Non-current assets

Healthy Supply Ltd owns 10 motor vehicles and two long vehicles used for collecting purchased products from local farmers and delivering them to customers/supermarkets, as well as fixed assets like office buildings and construction depots. These assets are critical to the company's operations and represent a significant portion of its balance sheet.

Key Activities Involving Non-Current Assets:

1. The Operations Department requests new equipment based on project needs.
2. The Procurement Team handles the purchase, following budget approval by Senior Management.
3. All assets are recorded in the Fixed Asset Register by the Finance Department.
4. The Maintenance Department oversees regular servicing and tracking of asset condition.
5. Depreciation is calculated monthly using system-generated schedules.
6. Periodic physical verification of assets is performed.
7. Disposals and transfers are approved and documented through formal procedures.

a) Your audit firm has won the tender to audit the financial statements of Healthy Supply Ltd for the year ended 31st December 2024. You are a senior auditor on the team, and during fieldwork, a young junior auditor approaches you seeking clarification on sample selection.

Required:

Explain to the junior auditor FOUR sampling methods that can be used. (4 Marks)

b) **Enumerate the important objectives of internal control relating to receivables and sales. (6 Marks)**

c) **Identify the most important objectives of internal control relating to non-current assets (4 Marks)**

d) Healthy Supply Ltd operates several bank accounts, including a main operating account, a payroll account, and two foreign currency accounts used for international related transactions.

At year-end, the finance team has reported a total bank balance of FRW 245 million in the financial statements.

As part of the year-end audit, you are assigned to verify the completeness and accuracy of these reported bank balances.

Based on the above scenario, explain SIX audit procedures you would perform to confirm the completeness and accuracy of the reported bank balances in the financial statements. (6 Marks)

(Total: 20 Marks)

End of Question Paper

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