
CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATION

S3.4 AUDIT AND ASSURANCE

DATE: TUESDAY, 24 AUGUST 2021

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

SECTION A

- 1 Segregation of duties is a control activity that aims at making it more difficult for fraudulent transactions to be processed and accidental errors to occur.

Which of the following key functions should be segregated from others?

- (i) Authorizing and initiating transactions
- (ii) Filing and archiving financial documents
- (iii) The physical custody and control of assets involved
- (iv) Recording of the transaction

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

(2Marks)

- 2 Audit risk represents the risk that the auditor will give an inappropriate opinion on the financial statements when the financial statements are materially misstated.

Which of the following categories of risk can be controlled by the auditor?

- (i) Control risk
- (ii) Detection risk
- (iii) Sampling risk

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

(2Marks)

- 3 If the auditors have been negligent, it is possible that a third party may have a claim against the auditors even though they do not have a contract with them.

What are the three requirements for a third-party claim for negligence to be valid?

- A Duty of care did not exist, negligence by the auditor occurred and damages in form of monetary loss was incurred by the client
- B Duty of care existed, negligence by the auditor occurred and damages in form of monetary loss was incurred by the client
- C Duty of care existed, no negligence by the auditor and damages in form of monetary loss was incurred by the client
- D Duty of care did not exist, negligence by the auditor occurred and damages in non-monetary form was incurred by the client

(2Marks)

- 4 The objective of the International Standards on Auditing (ISA) 300 - Planning an audit of financial statements is to plan the audit so that it will be performed by the auditor in an effective manner.

What are the key general areas among the following that are part of the audit strategy?

- (i) Reporting framework and scope of the audit
- (ii) Sample sizes
- (iii) materiality levels
- (iv) Management representations
- (v) Risk assessment

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

(2Marks)

- 5 Which of the following documents would normally be retained on the permanent file maintained for an audit client?

- A Completed checklist of statutory disclosure provisions
- B Extracts of minutes of meetings of the directors
- C Written representations obtained from management
- D Copy of the company's legal constitution

(2Marks)

- 6 ISA 300 states that the auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit.

What among the following would require the auditor to update the audit strategy as required by the standard?

- (i) Changes in accounting policies
- (ii) Departure of one of the key finance personnel
- (iii) Weak internal control systems
- (iv) The client has opened a new branch during the year

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

(2Marks)

- 7 Manzi is an Auditor at JODI Partners Ltd. During the audit, he had a disagreement with the client relating to an accounting treatment on impairment of plant, property and equipment. In accordance with ISA 220: Quality Control for an Audit of Financial Statements, **what would you advise Manzi to do in this situation?**

- A Explain the accounting treatment for impairment to the client again and force him to adopt Manzi's interpretation
- B Escalate the matter to the engagement Partner and request for further guidance and intervention.
- C Accept the client's accounting treatment for impairment since the client is the one who knows better the plant, property and equipment for the company.
- D Do nothing

(2Marks)

8 Which of the following statements about materiality are correct?

- (i) Information is material if its omission or misstatement could influence the economic decisions of users of the financial statements.
- (ii) Materiality is based on the auditor's experience and judgement.
- (iii) Materiality is always based on turnover.
- (iv) Materiality should only be calculated at the planning stage of the audit.

- A (i), (ii) and (iii)
- B (i), (iii) and (iv)
- C (ii) and (iv)
- D (i) and (ii)

(2Marks)

9 IAS 2: Inventories states that inventory should be valued at the lower of which among the following?

- (i) Inventory cost
- (ii) Selling price
- (iii) Net realizable value
- (iv) Inventory cost plus inflation

- A (i) and (iii)
- B (i), (ii) and (iii)
- C (ii) and (iii)
- D (i), (ii), (iii) (iv)

(2Marks)

10 Which of the following audit procedures is the most appropriate when testing for the existence, rights and completeness of trade receivables balances?

- A Receivable's confirmation
- B Comparison of debtors' statements with receivables ledger balances
- C Analytical procedures
- D Tests of controls

(2Marks)

SECTION B

- 11** You are an Auditor at XYZ Partners Ltd and your firm has been contracted by Mugisha & Sons Ltd to audit its financial statements for the year ended 31 December 2020. Mugisha & Sons Ltd is a company based in Nyarugenge District and specializes in importation and distribution of cooking gas in Kigali and other provinces.

Your Audit Manager at XYZ Partners Ltd has recently trained you on ISA 520: Analytical procedures and clearly explained to you that analytical procedures consist of evaluations of financial information made by a study of plausible relationships among both financial and non-financial data. They also encompass the investigation of identified fluctuations and relationships that are inconsistent with other relevant information or deviate significantly from predicted amounts.

You have been assigned by your Audit Manager to review and conduct a thorough analytical procedures on various account balances including payroll and accounts payables.

Required:

(a) With reference to the above scenario,

(i) **Identify and explain at least 4 factors you should consider as an auditor while conducting substantive analytical procedures?** (4Marks)

(ii) **Give examples of accounts balances for Mugisha & Sons Ltd financial statements that are suitable for substantive analytical procedures.**

(2Marks)

(b) **Discuss any 4 substantive analytical procedures you expect to conduct while reviewing payroll costs for Mugisha & Sons Ltd.**

(4Marks)

(Total: 10 Marks)

- 12** Gasongo Spare Parts Ltd is a company that specializes in sales of spare parts for automobiles and bikes, located in Gikondo Sector, Kicukiro District. The Company started its operations in 2015 and has been profitable over the years up to the period ended 31 December 2019.

You are part of the audit team that was assigned by his firm JLP CPAs Ltd to audit the financial statements of Gasongo Spare Parts Ltd for the year ended 31 December 2020.

During the entrance meeting, the management of Gasongo Spare Parts Ltd informed your team that during the year under audit, the Company was not successful as it made a loss of Frw 5 million, and it was mainly due to two reasons as detailed below:

There was a theft of spare parts by some unidentified employees which was discovered in October 2020, and the management has not been able to estimate how much was lost due to

the theft. Like many other businesses operating in Rwanda, Gasongo Spare Parts Ltd was also affected by the impact of Covid-19 pandemic whereby, during the imposed lockdown, there were no sales and it also caused obsolescence of some of the spare parts.

Required:

- (a) Clearly identify any four of your test of controls objectives for Gasongo Spare Parts Ltd inventory** (4Marks)
 - (b) Advise the management of Gasongo Spare Parts Ltd on how to estimate the loss incurred from the theft and show procedures to identify slow moving and obsolete inventory** (6Marks)
- (Total: 10 Marks)**

SECTION C

- 13** As a CAT graduate, you were recruited by AG & Associates Ltd as an audit Assistant and your firm has been hired to audit Abahinzi Microfinance financial statements for the year ended 30 June 2020. Abahinzi Microfinance is a microfinance licensed by the National Bank of Rwanda (NBR) based in Nyaruguru District. Its main customers are the farmers and small traders based in the district.

During the kickoff meeting, your Engagement Partner has informed you that during the year, Abahinzi Microfinance acquired an accounting software for bookkeeping and also assist in the preparation of its financial statements. However, he informed you that once the accounting software was operational, the management reported that some errors relating to mis-postings by the staff were noted mainly due to lack of proper training to use the accounting software.

Required:

- (a) Clearly show the difference(s) between application controls and general IT controls**
(4 Marks)
 - (b) Discuss other challenges you anticipate in relation to the new accounting system and their impact to the risks of material misstatements on Abahinzi Microfinance financial statements.**
(10 Marks)
 - (c) Discuss at least 6 general controls that Abahinzi Mincrofinance should use to address the challenges and risks identified above.**
(6 Marks)
- (Total: 20 Marks)**

- 14** Joel is an Audit Assistant and you both work together at MCL Associates Ltd. You have both been assigned to be part of the audit team to audit Masaka Farmers (MF) Ltd financial statements for the year ended 31 December 2020. MF Ltd is a company that specializes in the sale and distribution of agricultural produce of Masaka farmers to different markets in Kigali and in other provinces in Rwanda.

Joel has informed you that the Engagement Manager has assigned him to review various account balances and has instructed him to gather audit evidence as required by ISA 500- Audit evidence, and ensure that test of controls and substantive procedures gathered, are relevant to assertions for the account balances.

The Engagement Manager has requested Joel to ask you any question in case he needs any clarification and he has approached you for advice.

Required:

With reference to ISA 500: Audit evidence, advise Joel on the following:

- (a) **Describe the objective of ISA 500: Audit evidence in relation to the audit of MF Ltd financial statements.** (2 Marks)
- (b) **Clearly explain to Joel at least four factors that should influence his decision on what constitutes sufficient and appropriate audit evidence in regard to his assigned account balances.** (8 Marks)
- (c) **In accordance with ISA 315, the auditor must use assertions for classes of transactions, account balances, and related disclosures in sufficient detail to form the basis for the assessment of the risk of material misstatement and therefore the design and performance of further audit procedures. Explain this statement to Joel with reference to assertions used to test account balances for MF Ltd financial statements.** (10 Marks)

(Total: 20 Marks)

- 15** Your team has completed the audit assignment for Nyaruguru District Hospital financial statements for the year ended 30 June 2020. After the field work, your Engagement Partner has requested you to prepare the draft audited financial statements in line with ISA 700: The auditor's report on the financial statements for his review.

From your knowledge gained from the CAT Audit and assurance course, you feel confident to complete the work as assigned by your Engagement Partner.

Required:

- (a) **In line with ISA 700, discuss various audit opinions to the financial statements.** (4 Marks)
- (b) **Clearly explain at least ten (10) factors that you need to consider to conclude whether reasonable assurance has been obtained that the financial statements of Nyaruguru District are free from material misstatements.** (10 Marks)
- (c) **Clearly identify and explain the basic elements that should be contained in the Auditors report of Nyaruguru District Hospital.** (6 Marks)

(Total: 20 Marks)

End of question paper