
CERTIFIED ACCOUNTING TECHNICIAN (CAT)

STAGE 3

S3.4 AUDIT AND ASSURANCE

DATE: PILOT PAPER

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 – All TEN questions are compulsory and MUST be attempted

1. Leoncie is an audit technical manager making changes to her firm's standard software. She is currently focusing on the firm's auditor's report.

To which of the following should the auditor's report of an auditor in Rwanda be addressed?

- A To the principal shareholders
- B To the shareholders
- C To those charged with governance
- D To the stakeholders
- E None of the above

(2 Marks)

2. Kevin is working on the audit planning of Kibungo Retail Ltd, and is unsure where he should turn for technical guidance. He knows that auditors in Rwanda are bound to conduct their audit in accordance with International Standards on Auditing (ISAs).

Which of the following ISAs is most likely to be relevant to Kevin at this stage of the audit?

- A ISA 720 *The Auditor's Responsibilities Relating to Other Information*
- B ISA 560 *Subsequent Events*
- C ISA 330 *The Auditor's Responses to Assessed Risks*
- D ISA 450 *Evaluation of Misstatements Identified During the Audit*
- E None of the above

(2 Marks)

3. Agnes is the senior on the audit of Ndoli Textiles Ltd and is about to select a sample of purchase transactions for testing. She is unsure about how to implement the audit plan's directions, which state that the sample should be selected 'systematically'.

Which of the following statements concerning the required method of sample selection are correct?

- A Agnes should use her judgment to select a random sample of items.
- B Agnes should select items using a constant interval between selections.
- C Agnes should use a computerised generator to select the sample.
- D Agnes should select a sample of items with certain common characteristics.
- E None of the above

(2 Marks)

4. Brigitte has recently taken over the planning of the audit of MWF Supplies Ltd after Olive, who was previously the manager of this audit, left their firm. Olive had already begun planning and had decided that MWF Supplies Ltd's internal controls were likely to be effective and that the audit should therefore focus on conducting tests of controls.

Brigitte believes that Olive was mistaken and that MWF Supplies Ltd's internal controls are likely to contain significant deficiencies.

Assuming that Brigitte is right, which of the following correctly describe the likely consequences of Olive's decision to focus on tests of controls?

- (i) Audit effectiveness would be at risk
- (ii) Audit efficiency would be at risk
- (iii) Too much detection risk would be accepted by the auditor
- (iv) Control risk would be assessed as higher than it really is

- A (i) only
- B (i) and (iii) only
- C (ii) and (iii) only
- D (i), (iii) and (iv) only
- E None of the above

(2 Marks)

5. Nadine is an audit trainee and is about to begin the audit planning for a new client, Mucyo Music Ltd. She needs to decide how best to document its systems of internal controls.

Mucyo Music Ltd has a varied business with a large number of non-standard transactions and tends to produce large amounts of documentation that is relevant operationally but not financially.

Which of the following features of document flowcharts are valid in relation to the audit of Mucyo Music Ltd?

- (i) They are well-suited to describing systems such as those at Mucyo Music Ltd that are not standardised
- (ii) Auditors may waste time documenting systems that are of no audit significance
- (iii) Since Nadine is relatively inexperienced, they may be time-consuming to prepare
- (iv) They generally ensure that the system is documented in its entirety, including any 'loose ends'

- A (i) and (ii) only
- B (iii) and (iv) only
- C (i), (ii) and (iii) only
- D (ii), (iii) and (iv) only
- E None of the above

(2 Marks)

6. Olivier is planning the audit of Ndoli Nuptials Ltd and is planning to make use of an internal control evaluation questionnaire (ICEQ) to assess the client's system of internal controls.

Which of the following questions would it be appropriate for Olivier to include in an ICEQ in respect of Ndoli Nuptials Ltd's receivables balance specifically?

- A Are liabilities recorded only for authorised transactions?
- B Do recorded assets actually exist and belong to the company?
- C Are journal entries adequately controlled?
- D Could unauthorised cash payments not be made?
- E None of the above

(2 Marks)

7. Alphonse is a trainee working on the audit of Nyiramutangwa & Associates Ltd and has selected the following sales transactions for substantive testing:

Invoice #	Date	Customer name	Customer type	Net amount RWF
1750	18/03/20	Bella Mucyo	Individual	31,999
1800	05/04/20	Karera Textiles Ltd	Company	59,999
1850	25/04/20	James Gatera	Individual	19,999

Which sampling method is Alphonse most likely to have used here?

- A Systematic selection
- B Haphazard selection
- C Random selection
- D Block selection
- E None of the above

(2 Marks)

8. Josiane is working on the liabilities section of the audit of Umurerwa Associates Ltd. A provision has been made for sales made with a right of return.

Which of the following audit procedures might be relevant to the audit of this provision?

- (i) Enquire of the management of Umurerwa Associates Ltd how they have estimated the provision.
- (ii) Confirm, on a sample basis, that inventory records have been updated for sales recognised in the revenue account.
- (iii) Trace a sample of sales transactions from the general ledger through to sales invoices.

Review the prior period provision and compare actual sales returns with estimated returns

- A (i) and (ii)
- B (iii) and (iv)
- C (i) and (iii)
- D (i) and (iv)
- E None of the above

(2 Marks)

9. The audit of Masoro Manufacturing Ltd is at the planning stage, and Charles is in the process of drafting the audit strategy document.

Which of the following issues should Charles address in the audit strategy document?

- (i) A summary of the audit team members who will be responsible for specific audit areas of the financial statements
- (ii) Timetable of planned audit procedures at the assertion level
- (iii) Timing of the audit team briefing meeting
- (iv) Performance materiality levels of specific areas of the financial statements

- A (i) and (ii) only
- B (iii) and (iv) only

- C (i) and (iii) only
- D (i) and (iv) only
- E None of the above

(2 Marks)

10. Vedaste is a first year audit trainee and at a firm social event has been overheard declaiming his views on the lamentable state of an audit client's internal controls. Which of the following fundamental principles of professional ethics is Vedaste most likely to have breached?

- A Integrity
- B Objectivity
- C Professional competence and due care
- D Confidentiality
- E None of the above

(2 Marks)

Section B – BOTH questions are compulsory and MUST be attempted

11. You are an audit manager at Niyonsenga & Partners Ltd, and are assessing materiality levels for a number of audit clients.

Kibungo Hyper Markets Ltd operates a chain of six shops selling foodstuffs and other household items. It has significantly expanded its asset base over the last year, although its revenue has remained stable in comparison with the prior period.

Nyamata Trading Co Ltd fell victim to a fraud by several of its employees during the year. The fraudsters worked in the company's sales department and manipulated reported figures in order to obtain the higher bonus payments on offer for making more sales. The company made a small profit before tax for the year, which contrasts with the substantial profits made in the prior period.

Kabuga Capital Ltd, an investor in venture capital, has maintained a stable asset base over the last year but has been the subject of some concern on the part of its shareholders at its slightly declining profit before tax.

Required

ISA 320 *Materiality in Planning and Performing an Audit* makes use of the concepts of materiality and performance materiality.

- (a) Explain the meaning of these two terms. **(4 Marks)**
The determination of materiality in accordance with ISA 320 is not limited only to quantitative factors.
- (b) Identify and give examples of qualitative factors that may influence the auditor's assessment of the materiality of an item. **(3 Marks)**
- (c) For each of the audit clients above, identify the most appropriate area of the financial statements to use as a benchmark for the auditor's assessment of materiality. **(3 Marks)**

Total (10 Marks)

12. Your firm has recently won the audit of Bugarama Entertainment Ltd. Bella Umuhiza has been appointed as audit engagement partner and has said that she believes that the company's control environment is a strong one.

Bugarama Entertainment Ltd is a retailer of traditional Rwandan music and operates several stores in retail outlets across the country. Its operations are controlled by Leoncie Nahimama, a former musician whose aim is to further the standing of Rwandan culture on the world stage. Leoncie has told the Bella that she thinks "culture is more important than money" and that the company should not focus on finance at the expense of her other goals.

Since your firm has not audited this client before, Bella has stated that it is important that you spend sufficient time obtaining an understanding of Bugarama Entertainment Ltd.

Required

ISA 315 *Identifying and assessing the risks of material misstatement through understanding the entity and its environment* requires the auditor to obtain an understanding of the audit client.

- (a) Identify and explain the principal types of procedure by which the auditor should identify and assess the risks of material misstatement. **(4 Marks)**
- (b) Identify six areas of the business operations of Bugarama Entertainment Ltd in which your firm should obtain detailed knowledge, in order to obtain an understanding of the business as the basis of its audit planning. **(6 Marks)**

Total (10 Marks)

Section C – All THREE questions are compulsory and MUST be attempted

13. You are an audit manager at Manirahi Partners Ltd, a small audit firm specialising in the audit of manufacturing companies. You are responsible for dealing with any ethical issues arising at the firm and have been asked to advise the relevant audit engagement partners in relation to the following three clients.

Gitarama Ltd

Following on from last year's audit, in which Manirahi Partners Ltd discovered several significant failures of internal control, the board of Gitarama Ltd has decided that it needs to take action in order to improve the situation. It has decided to establish an internal audit function and has asked Manirahi Partners Ltd to provide it with this service during the current year. Manirahi Partners Ltd will continue to act as external auditor to the firm.

Rusumo Manufacturing Ltd

Rusumo Manufacturing Ltd is a manufacturer of kitchen and homewares and has been an audit client of Manirahi Partners Ltd for many years. Having never expressed a modified audit opinion in respect of Rusumo Manufacturing Ltd, the audit engagement partner has recently been informed by management that the Rwanda Revenue Authority (RRA) has begun an investigation into suspected over-declaration of taxable expenses at Rusumo Manufacturing Ltd. Rusumo Manufacturing Ltd has asked Manirahi Partners Ltd to help it deal with any matters arising from the investigation.

Bracorwa Ltd

The audit manager for the audit of Bracorwa Ltd, Solange Mukandanga, has informed you that she is attending a third and final interview for the post of finance director at Bracorwa Ltd. Manirahi Partners Ltd issued an auditor's report for Bracorwa Ltd nine months ago.

Required

- (a) Identify and explain each of the fundamental principles of the IESBA *Code of Ethics*. **(5 Marks)**
- (b) Identify and explain the matters to consider, and any actions that should be taken, in relation to the ethical issues arising above. **(15 Marks)**

Total (20 Marks)

14. Mutsinzi Associates Ltd has a financial year ending 30 June 20X0 and was recently established as a limited company selling a range of premium fabrics for use in the clothing industry. Mutsinzi Associates Ltd is headed up by Claude Mutsinzi, an extremely dynamic individual who has been the driving force behind the business' growth from its beginnings operating in markets on the outskirts of Kigali to the large fabric manufacturer and retailer that it is today. This transformation has been accomplished in the space of just a few years. The company has grown enough to now require an external audit and has recently appointed Umulisa & Partners to perform this role.

Around halfway through the year Claude made the decision to employ an ICPAR accountant to run the company's small finance department. Once recruited, the accountant discovered significant errors in the way the company has been reporting its revenue and has helped to establish a system of regular bank reconciliations to underpin controls in other areas.

Claude has become increasingly cognisant that, now that he is running a limited company, there needs to be an adequate system of internal control in place. This would enable the company to fulfil its statutory responsibilities regarding the safeguarding of assets and the maintenance of proper records, as well as to help mitigate the risk of loss as a result of fraud. Claude has asked Umulisa & Partners for its help in establishing proper systems of internal control.

As a small entity, Mutsinzi Associates Ltd has tended to rely on a single supplier for all of its raw materials. This arrangement worked successfully while Mutsinzi Associates Ltd was still small and its materials demand was relatively small, but this year the supplier has struggled to supply Mutsinzi Associates Ltd with sufficient materials. There have been several occasions on which production had to be halted temporarily because materials were unavailable for production.

Claude has sought to address this problem by taking on a new purchasing manager in order to increase the level of diversification of its materials supply. The new manager will also be tasked with negotiating better terms of sale for purchased materials.

Required

- (a) (i) Explain the inherent limitations of internal control systems. **(5 Marks)**
- (ii) Explain what is meant by the control environment, and evaluate the strength of the control environment at Mutsinzi Associates Ltd. **(4 Marks)**
- (b) Identify the principal objectives that you would expect Mutsinzi Associates Ltd's purchases system to have and give examples of controls to address each objective. **(8 Marks)**
- (c) Explain any ethical matters to consider in relation to the proposal for the auditor to give advice on the establishment of internal controls at Mutsinzi Associates Ltd. **(3 Marks)**

Total (20 Marks)

15. You are audit manager responsible for the audit of Kibungo Enterprises Ltd, a film-maker specialising in the production of wildlife and safari films that are sold in the tourism industry and with a financial year end of 30 June 2020. This is the first year in which your firm has acted as auditor to Kibungo Enterprises Ltd. The audit is at the completion stage. The financial statements show total assets of RWF 65 million, revenue of RWF 120 million and profit before tax of RWF 3.2 million.

As a training exercise you have asked the audit senior, Kevin Kaneza, to draft the auditor's report on this client for you to review. Extracts of Kevin's draft report are reproduced below.

DRAFT REPORT

Basis for adverse opinion

Management has not created a provision for an expected liability associated with an ongoing legal claim against the company. Management says that a reliable estimate cannot be made of the outcome of the case, but we disagree and feel that one could be made in the region of RWF 240,000. We feel that this is a material omission, as a result of which the client's revenue is overstated.

Opinion

In our opinion, except for the effects of the matter described in the Basis for Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the client as at 30 June

2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Emphasis of Matter

We wish to emphasise the importance of the management's failure to include a provision for the legal case referred to above. This matter is highly material and therefore of relevance to users.

Emphasis of Matter

Management has failed to make adequate disclosure of an internally-generated brand name, which should be valued in the region of RWF 700,000.

Other Matter

The financial statements of Kibungo Enterprises Ltd for the year ended 30 June 2019, were audited by another auditor who expressed an unmodified opinion on those statements on 15 October 2019.

Required

- (a) Explain the term 'key audit matter', and then explain:
 - (i) How the auditor determines whether a matter is a 'key audit matter'; and
 - (ii) The auditor's responsibilities for communicating 'key audit matters' **(6 Marks)**
- (b) Critically evaluate the extract of the draft auditor's report. Your evaluation should include an assessment of the materiality of each issue addressed. **(14 Marks)**

Total (20 Marks)

Total (100 Marks)

End of question paper