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**CERTIFIED ACCOUNTING TECHNICIAN**  
**STAGE 3 EXAMINATION**  
**S3.4 AUDIT AND ASSURANCE**  
**TUESDAY: 01 DECEMBER 2020**

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**Instructions**

- 1 Time allowed: **3 hours and 15 minutes.**
- 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. Gisenyi & Co is responsible for the audit of Mwanza Manufacturing Ltd. Mwanza Manufacturing Ltd's directors are disputing the auditor's rights under Rwandan law.

Which of the following are rights of Gisenyi & Co as auditor?

- (i) Right of access to records
- (ii) Right of amendment of the financial statements
- (iii) Right to attend general meetings of the company
- (iv) Right to make written resolutions of the company

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

**(2 marks)**

2. International Standards on Auditing (ISAs) are to be applied in all audits in Rwanda.

Which of the following is true of the authority of ISAs?

- A ISAs override the local or national legislation of Rwanda.
- B The auditor will always need to depart from an ISA in order to achieve their objective.
- C ISAs are developed by the IAASB and issued in Rwanda by the ICPAR.
- D The requirements of ISAs must be applied to all matters, irrespective of their materiality.
- E None of the above

**(2 marks)**

3. Francis is working on the audit planning for the audit of BCL Ltd. He knows that he is required to assess the entity's information systems and internal control but is unsure how to proceed.

Which of the following statements is true in relation to this assessment?

- A Francis should assume that control risk is low unless there are indications otherwise.
- B Francis should carry out tests of controls where he believe controls are ineffective.
- C If the client's system has not changed substantially, Francis need only update his understanding of it from the previous year.
- D If the risk of material misstatement is assessed as low, Francis should carry out more tests of control.
- E None of the above

**(2 marks)**

4. Leoncie has decided to use an Internal Control Evaluation Questionnaire (ICEQ) to record Butare Retail Emporium Ltd's systems of internal control. She is in the process of drafting the questions to be included but is unsure whether what she has written meets her aim to evaluate the client's internal controls.

Which of the following questions would be appropriate for Leoncie's questionnaire?

- (i) Are purchases properly authorised?
- (ii) Are employees reasonably certain to be paid only for work done?
- (iii) Are quality checks performed on all goods received?
- (iv) Are payroll sheets cross-checked to timesheets?

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

**(2 marks)**

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5. ISA 230 *Audit documentation* requires the auditor to keep working papers as a record of audit planning, procedures, evidence, supervision and review.

Which of the following should be kept on the permanent audit file?

- (i) Signed audit engagement letter
- (ii) Audit strategy document
- (iii) Signed auditor's report
- (iv) Notes on accounting systems
- (v) Written representation letter

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

**(2 marks)**

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6. Eustache is the manager responsible for the audit of Cyangugu Business Systems Ltd and is in the process of determining the sample sizes to be used for testing the entity's control systems.

Which of the following statements regarding the factors influencing sample size is true?

- A An increase in the extent to which the auditor's risk assessment takes into account relevant controls will result in smaller sample sizes.
- B An increase in the tolerable rate of deviation will result in smaller sample sizes.
- C An increase in the expected rate of deviation of the population to be tested will result in smaller sample sizes.
- D An increase in the auditor's desired level of assurance will result in smaller sample sizes.

E None of the above

**(2 marks)**

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7. The audit of Nduwayezu Ventures Ltd is at the planning stage and Dative is unsure which items she should include in the audit strategy and which should be in the audit plan.

Which of the following items should be included in the audit plan?

- A The number of audit team members to assign to the inventory count
- B Description of key cut-off dates for audit work
- C Description of the skills that will be required of the audit team
- D Allocation of transaction testing to a specific audit assistant
- E None of the above

**(2 marks)**

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8. Brigitte is an audit trainee at Ruzindana & Co, a large audit firm headquartered in Kigali. Brigitte is performing a preliminary analytical review of the draft financial statements of Nzega Industries Ltd for the year ended 31 March 2020. She has noticed that the proportion of the company's revenue earned in the month of March is significantly higher than it was in the previous year.

Which of the following responses would be appropriate in this situation?

- (i) Designating transaction testing around the year end as an area of high risk, so that more procedures are performed in this area
  - (ii) Inquiring of management about the reasons for this change
  - (iii) No action is required at this stage as there is no suggestion of fraud
  - (iv) Refer the matter to the audit partner for further investigation
- A (i) and (ii)
  - B (ii) only
  - C (iii) only
  - D (ii) and (iv)
  - E None of the above

**(2 marks)**

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9. The audit of LimCoRwa Plc is nearing completion and Cissy is drafting a list of written representations that the audit firm requires the client's management to make.

Which of the following would it be appropriate for Cissy to include on the list?

- (i) That the company is reasonably expected to continue as a going concern for at least six months
- (ii) That the selection and application of accounting policies by the company is appropriate
- (iii) That the management and the auditor have fulfilled their responsibility for the preparation of the financial statements in accordance with IFRS
- (iv) That all transactions have been recorded and are reflected in the financial statements

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

**(2 marks)**

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10. As an ICPAR member working as an auditor, Robert understands that he has a duty of confidentiality to his clients but is unsure of the circumstances in which exceptions to this duty exist.

In respect of which of the following clients may confidentiality be breached voluntarily?

- (i) In order to defend himself against Mukakigeli Trading Ltd, which is suing Robert for professional negligence
- (ii) In order to act as an expert witness giving evidence in a case against the management of HQN Ltd, which has been accused of fraud
- (iii) In relation to Ngarambe Ltd, which Robert suspects of concealing the proceeds of criminal acts
- (iv) In order to win the audit of a competitor of his client, Rwamagana General Stores Ltd, whose permission Robert has obtained

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

**(2 marks)**

## Section B – BOTH questions are compulsory and MUST be attempted

11. Kabarore Enterprises Ltd is a new client of Twizeyimana & Partners, a firm of ICPAR members operating from a head office in Kigali. Kabarore Enterprises Ltd is large firm which operates a cobalt extraction and processing facility, with a financial year end of 31 March 2020. In addition to its assets, revenue is a key area of the company's financial statements.

Kabarore Enterprises Ltd makes no cash sales with almost all sales being made to established customers who are given payment terms of 28 days, with a discount of 3% if payment is made within 14 days. Any debts older than 60 days are included in the allowance for irrecoverable receivables.

The audit engagement partner for the audit of Kabarore Enterprises Ltd has informed you that, since this is the first time the firm has audited this client, a thorough assessment needs to be made of its system of internal controls. She is unsure whether to use Internal Control Questionnaires (ICQs) or Internal Control Evaluation Questionnaires (ICEQs), and has asked for a summary of the benefits and drawbacks of ICQs for evaluating Kabarore Enterprises Ltd's internal controls. She thinks that an ICEQ is likely to be more appropriate for this client, however, and has asked you for details of the key questions that should be asked in relation to the revenue and receivables system at Kabarore Enterprises Ltd.

### *Required*

- (a) Identify and explain the principle advantages and disadvantages of ICQs as a method of evaluating an entity's internal controls. **(4 marks)**
- (b) List four key questions that should be included on an ICEQ relating to the revenue and trade receivables system of Kabarore Enterprises Ltd. **(6 marks)**

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**Total (10 Marks)**

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12. You are an audit manager in Mugabo & Co, a small ICPAR firm, and have recently taken on responsibility for the audit of Ndera Ltd which has been a client of Mugabo & Co for several years. Mugabo & Co issued standard unmodified auditor's reports on Ndera Ltd's financial statements for the years ending 31 November 2018 and 2019.

Charles Karera, the audit engagement partner for the audit of Ndera Ltd, has informed you that the company has recently discovered a fraud that has been in operation since at least June 2018. The directors of Ndera Ltd have informed Charles that they intend to hold him responsible for the losses the company has incurred from the fraud, which amount to approximately RWF 75 million.

Upon reviewing the audit files for the years ended 2018 and 2019, you have discovered that no audit procedures were performed on trade payables – stated at RWF 215 million in 2019 – because they were deemed to be low risk. Total assets for the year ended 2019 were RWF 1,250 million.

### *Required*

- (a) Explain the three things that must be shown to exist for a claim to be brought in negligence. **(4 marks)**

- (b) Identify and explain the matters to consider in determining whether the auditor of Ndera Ltd has acted negligently. **(6 marks)**

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**Total (10 marks)**

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

13. You are an audit manager in Nyiramutangwa & Partners, an audit firm based out of a small office on the outskirts of Kigali. Cyangugu Aggregates Ltd is a small entity that supplies materials to the construction industry and has grown steadily over the last decade. The engagement partner for this audit, Francis Karemera, has been in his position for some years. Planning for the audit for the year ended 31 May 2020 is substantially complete but some potential ethical conflicts have now arisen.

The finance director of Cyangugu Aggregates Ltd, Josiane Ishema, has informed you that the firm will be needed to perform a non-audit service for it in relation to a loan that it has taken out during the year. The loan is from a national bank and includes a covenant stipulating that Cyangugu Aggregates Ltd's gearing ratio should not exceed 75%. The engagement would be for Nyiramutangwa & Partners to perform and report on agreed-upon procedures in relation to the levels of debt and of equity. The engagement would not involve providing any assurance regarding the figures.

Josiane has also made a further request for you or the audit partner to accompany her to a meeting with the firm's bank at which the audited financial statements would be presented in support of an application for an additional loan. Josiane has hinted that if the firm does not accompany her to the meeting, she will put the audit out to tender next year as she regards this as a key part of the firm's role as auditor.

Shortly after beginning the planning, you received the following email from Francis Karemera.

To: Audit manager  
From: Francis Karemera  
Subject: Cyangugu Aggregates Ltd audit

Hello

A potential issue has arisen in relation to the forthcoming audit: my wife and I have both inherited shares in Cyangugu Aggregates Ltd. I was informed of this yesterday and, as I believe they would create an ethical conflict in relation to the audit, I have already begun the process of selling the shares. I would like to have your opinion on whether I can continue to act as audit engagement partner for this client this year.

Kind regards,  
Francis

### ***Required***

ISA 200 *Overall objectives of the independent auditor and the conduct of an audit in accordance with international standards on auditing* requires auditors to exercise professional scepticism and professional judgment throughout the audit.

- (a) Explain the meaning of the terms 'professional scepticism' and 'professional judgment', and describe two areas where professional judgment should be applied during audit planning

**(6 marks)**



The IESBA *Code of Ethics* requires auditors to be independent of their audit clients.

- (b) Identify and explain the matters to consider, as well as any actions to take, in relation to the audit of Cyangugu Aggregates Ltd.

**(14 marks)**

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**Total (20 Marks)**

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14. You are an audit manager at XWC Partners Ltd, and are in the process of planning the forthcoming audit of Byumba Textile Retail Ltd, a longstanding client of your firm. Byumba Textile Retail Ltd operates a series of retail outlets across the region, selling textiles directly to customers. For the purposes of planning the audit, Byumba Textile Retail Ltd has made available projected financial statements for the year ended 31 July 2020 which show total assets of RWF 450 million (2019: RWF 435 million) and revenue of RWF 940 million (2019: RWF 910 million).

The financial statements include inventory at a value of RWF 82 million, which consists of textiles held at a number of sites – the company's central warehouse and its retail outlets. The textiles are of a variety of types, from commonplace cloths to rarer and more valuable vintage textiles.

Almost all of the company's inventory is bought in from suppliers and then sold directly onto customers. During the year, however, the company has begun to process its own simple textiles at its central warehouse, in relation to which the inventory balance includes a small amount of work in progress. Only direct labour overheads are allocated to the cost of this inventory, with all general or administrative overheads being treated as expenses in the year.

In previous years, it has been difficult for the audit team to obtain sufficient appropriate audit evidence in relation to the valuation of some of the rare or valuable items held in inventory. It has therefore been suggested that XWC Partners Ltd engage the services of an expert valuer to assist with this part of the audit.

*Required*

- (a) Identify and explain the principal audit risks in relation to Byumba Textile Retail Ltd's inventory. **(3 marks)**

Since inventory is a material balance on the statement of financial position, the auditor must perform procedures in relation to the inventory count.

- (b) Describe and explain the principal audit procedures that should be performed in respect of the count of shop inventory. **(8 marks)**

It has been proposed that an expert be used as part of the valuation of Byumba Textile Retail Ltd's inventory.

- (c) (i) Discuss the factors that should be taken into account when determining whether to use the work of such an expert. **(4 marks)**  
(ii) Identify and explain the principal audit procedures that should be performed in relation to the valuation of Byumba Textile Retail Ltd's inventory. **(5 marks)**

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**Total (20 Marks)**

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15. You are the audit manager responsible for the audit of Gisenyi Coffee Products Ltd, a large company which operates a number of farms and plants that specialise in the growth and processing of coffee beans for sale to retailers. The latest draft financial statements for the year ended 28 February 2020 show total assets of RWF 320 million (2019: RWF 310 million), revenues of RWF 680 million (2019: 690 million) and profit before tax of RWF 34 million (2019: RWF 28 million).

The audit is at the review stage, and a number of issues have been identified that require your attention.

- (i) During January 2020, Gisenyi Coffee Products Ltd began to operate a new computer system. Using the new system, accounts staff were able to detect that inventories of processed coffee beans have been overvalued. The company is writing off the amount of RWF 2.5 million over two years, half in this year and half in next year.
- (ii) A key product line for Gisenyi Coffee Products Ltd is the sale of beans to overseas retailers under a 'fair trade' brand, responsible for sales revenues of RWF 244 million in 2020. The production of these beans is subject to strict conditions for it to meet the standards required for fair trade certification to be obtained.

The audit team has obtained correspondence with the regulator showing that as a result of these conditions not being met, certification was withdrawn on 6 May 2020. The correspondence states that the company would not be able to re-apply for certification for at least six months.

The directors have included no disclosures in relation to this, on the grounds that it does not relate to conditions existing during the reporting period. No information regarding projected cashflows has been made available to the auditor.

- (iii) Management has shown you the final draft of the directors' report to be included in the company's annual report. The report explains that revenue and profits are rising steadily and that the company is consequently in a strong position, and looks forward to a good year ahead.

*Required*

International Standards on Auditing (ISAs) require the auditor to tailor the sections that are included in the auditor's report to each situation.

- (a) Explain and distinguish between each of the following terms:
  - (i) Qualified opinion
  - (ii) Disclaimer of opinion
  - (iii) Emphasis of Matter paragraph
  - (iv) Other Matter paragraph **(8 marks)**
- (b) In relation to each of the issues above, identify and explain any matters to consider and the implications for the auditor's report on the financial statements. **(12 marks)**

**Total (20 marks)**

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**Total (100 marks)**

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**End of question paper**

