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**CERTIFIED ACCOUNTING TECHNICIAN**  
**STAGE 3 EXAMINATION**  
**S3.4 AUDIT AND ASSURANCE**

**DATE: TUESDAY, 30 NOVEMBER 2021**

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**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**

Carine, a senior auditor at Kalima and CPAs Ltd has been assigned to select a sample of sales transactions to test. Ally is Carine's supervisor and he recommended that during the audit execution, the sampling will not follow any structured technique.

**Which of the following sampling techniques will be appropriate as per the audit plan?**

- A Random selection,
- B Systematic selection,
- C Haphazard selection,
- D Sequence or block selection,

**(2Marks)**

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### **QUESTION TWO**

During the audit of Bugesera Tea Factory, you have realized that there was a purchase of a drying machine amounting to FRW 400,500,000 which led to an increase of 40% of the Company's total assets during the year. This purchase was financed by a Bank loan due to the fact that the shareholders' equity could not afford such an expensive asset.

In your analysis, you are skeptical about the financial forecasting and feasibility analysis done by management and directors before engaging in the loan agreement. Upon request, management refused to provide financial forecasts and board resolutions supporting the approval of loan acquisition.

**Which of the following is a correct combination of rights of auditor in accordance with the International Standards on Auditing (ISAs) and Company's Act that should be explained to Bugesera Tea Factory management?**

- i. Information and explanations
  - ii. Coordinate and speak at general meetings,
  - iii. Receive a copy of any written resolution proposed,
  - iv. Access at limited time to the books, accounts and the vouchers of the company,
  - v. Receive all notices of and communications in relation to general meeting each member of the company is entitled to receive.
- A (i), (ii) and (iv)
  - B (ii), (iii) and (v)
  - C (i), (iii) and (v)
  - D (i), (ii), (iii), (iv), (v)

**(2Marks)**

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### QUESTION THREE

During an audit engagement of **Kabaya Manufacturing Limited**, Paul, an assistant auditor was assigned to audit related parties' transactions. As an assistant auditor, he is seeking guidance from his senior auditor, who advised him to consult the International Standard on Auditing (ISAs) to come up with basic knowledge about his assigned task and discuss it during the engagement team meeting.

**Which among the following ISAs would specifically assist Paul to acquire knowledge on how to test related parties' transactions?**

- A ISA 402: Audit considerations relating to an entity using a service organization
- B ISA 500: Audit evidence
- C ISA 330: The Auditor's responses to assessed risks
- D None of the above

**(2Marks)**

### QUESTION FOUR

Karera is an audit senior at PCM Associates Ltd and he was assigned to review the payroll system of Mbabazi Enterprise Ltd, one of the biggest suppliers of the office furniture in Kigali, with more than 200 employees.

During the payroll system review, Karera identified the following deficiencies:

- (1) Two members of staff are entirely and equally responsible for the maintenance of personnel records and preparation of the payroll.
- (2) The only independent verification of any nature on the payroll is performed by the Chief Accountant, who confirms that the amount of the wages on cheque presented to him for signature agrees with the total of the net wages on payroll's column. This verification conducted by Chief Accountant does not involve any consideration of the reasonableness of the amount of the total net wages or the monies being shown as due to individual employees.

It is a significant weakness for Mbabazi Enterprise's payroll system that so much responsibilities are vested in the hands of just two people. This situation is made worse by the fact that there is no clearly defined segregation of duties between the two of them. In Karera's opinion, it would be susceptible for a fraud to take place in this area, and/or for clerical errors to go undetected.

**In regard of the above scenario, which among the following would be the correct recommendations directly addressing Mbabazi Enterprise payroll system deficiencies?**

- (i) When the payroll is presented in support of the cheque for signature to the Chief Accountant, he should be responsible for assessing the reasonableness of the overall charge for monthly wages.
- (ii) The payroll budget should be in place and be reviewed by management to ensure accuracy of the payroll costs.
- (iii) Different individuals other than the two wages clerks should be made responsible for maintaining the personnel records and for periodically (but on a surprise basis) checking them against the details on the payroll.
- (iv) The two wage clerks should be allocated specific duties in relation to the preparation of the payroll, with each clerk independently reviewing the work of the other.
- (v) The payroll master file should be reconciled to the general ledger.

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

**(2Marks)**

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### QUESTION FIVE

You are an audit senior at ADF Partners Ltd, and you are planning the audit for your new client, AM Ltd for the year ended 31 December 2020. AM Ltd specializes in manufacturing of mattresses.

As this is the first year of audit, it is necessary to understand and evaluate the company's system of internal controls. ADF partners Ltd allows you to use different methods to record or evaluate accounting and controls systems. Your audit manager has planned to use flowcharts in evaluating AM Ltd's internal controls to ensure that critical controls and operations are shown.

You are required to advise the Audit Manager, **which among the following is not an advantage of using flowcharts in evaluating AM Ltd's internal controls?**

- A They generally ensure that the system is recorded in its entirety, as all documents' flows have to be traced from beginning to end. Any 'loose ends will be apparent from a cursory examination.
- B They eliminate the need for extensive narrative and can be of considerable help in highlighting the salient points of control and deficiencies in the system.
- C They are only really suitable for describing standards systems. Procedures for dealing with unusual transactions will normally have to be recorded using narrative notes.
- D As the information is presented in a short standard form, they are fairly easy to follow and to review.

**(2 Marks)**

## QUESTION SIX

Berwa Ltd is a manufacturer of clothes based in Kigali. You are carrying the audit of financial statements of the company for the year ended 31<sup>st</sup> December 2020, which shows a revenue of FRW 809,500,000 and a profit before tax of about FRW 90,000,000.

During your interim audit in July 2020, the test of controls was carried out and it showed that there was a weak internal control in the sales system and some material errors were found by the audit tests.

The audit supervisor has instructed you to investigate and consider the provision against unusual items in the sales ledger to obtain assurance over recoverability of receivables.

**Which among the following is not an unusual item in the sales ledger?**

- A Journal entries transferring balances from one account to another
- B Balances not made up of specific invoices
- C Journal entries that reverse post year end balances
- D Unpaid invoice to be paid subsequently

**(2Marks)**

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## QUESTION SEVEN

Alex is planning the audit for Inema Ltd. From the discussions during opening meeting with the client, he noted that Inema Ltd uses a modern accounting software allows data to be handled and interpreted into various ways. Furthermore, he realized that this could facilitate the audit team to use Computer Assisted Audit Techniques (CAATs) to test Inema ltd's computer system processes.

**Advice Alexis on what are challenges associated with using test data:**

- (i) The audit costs in general may increase because experienced and specially trained staff will be required to design the software, perform the testing, and review the results of the testing.
- (ii) Test data only tests the operation of the system at a single point of time and therefore the result does not prove that the program was in use throughout the period under review.
- (iii) Initial computer time and cost can be high, and the client may change their programs in subsequent years.
- (iv) Any resulting corruption of data files has to be corrected.
- (v) Using audit software is not likely to be cost-effective in the long-term if the client does not change its systems.

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

**(2Marks)**

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## QUESTION EIGHT

During the audit of KARAMA Supplies Ltd, AJAX Associates Ltd, a small auditing firm licenced by ICPAR has identified cases of undeclared and unpaid taxes amounting to FRW 300,546,000.

During the discussion with the audit partner and after understanding of the issue, it was decided that it constituted a non-compliance with tax laws and regulations. The management of KARAMA Supplies Ltd has accepted the non-compliance during discussion but rejected what has been advised by AJAX Associates Ltd to report themselves to the tax authority.

Though it is a professional duty of the auditor to maintain client's confidentiality, the audit partner of AJAX Associates Ltd has decided to disclose the information to the tax authority referring to the guidance provided by the International Ethics Standards Board for Accountants (IESBA) code of ethics in the area of suspected or identified instances of non-compliance with laws and regulations.

**Which among the following could have been the specific reason for AJAX Associate Ltd to engage in a voluntary disclosure of the above information to the tax authorities?**

- A Disclosure is authorized by statute
- B Disclosure is reasonably necessary to protect the member's interests to defend an action for say negligence
- C Disclosure is related to suspicions of treason offence, or money laundering
- D All the above

**(2Marks)**

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## QUESTION NINE

OG Ltd is manufacturing company that produces oil. **Which of the following might be specific performance materiality levels apply?**

- (i) Directors' remuneration
- (ii) Exploration and development costs
- (iii) The financial statements as a whole – to reduce to an appropriately low level of the probability that the aggregate of uncorrected misstatements exceeds materiality for the financial statements as a whole
- (iv) The financial statement as a whole – to determine whether misstatements identified during the audit should be accumulated and communicated to management

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

**(2Marks)**

## QUESTION 10

Alex is an audit senior for the interim audit of Makanga Ltd, which introduced a new accounting system at the beginning of the year under audit. You have discussed about the new accounting system with the sales director, and you have noted the following key points in particular:

1. Customers input their orders into computerized order forms on Makanga Ltd's website. The orders note the items requested, the billing and sales addresses, and the customer number. The system checks whether goods are available in stock and approves the order instantly. The order is forwarded automatically to the sales department to be prepared.
2. When an order is ready to send out, the sales department inputs the details into their system, and it matches the order and a goods outward note is produced, and the invoicing department is notified automatically.

Alex is reviewing the audit plan for test of controls over invoicing, which reads:

- (i) Observe the invoicing clerk to ensure that prices are checked to the official price list.
- (ii) Review a sample of invoices to ensure their numerical sequence.
- (iii) Review a sample of goods out notes to ensure they have been matched to sales invoices.
- (iv) Review a sample of sales invoices to verify evidence that the calculations were checked before they were sent to customers.
- (v) Review a sample of sales reconciliations performed between sales invoices and daily sales reports.

**Which of the above tests of controls are related to the accuracy assertion?**

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

**(2Marks)**

## **SECTION B**

### **QUESTION 11**

ISA 500: Audit Evidence clarifies that the objective of an auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusion on which to base the auditor's opinion.

**Required:**

- a) Explain the meaning of sufficiency and appropriateness of audit evidence. (4 Marks)**
  - b) Explain any 6 audit procedures used by auditors to obtain audit evidence and give examples what type of items in the financial statements that could be audited by each procedure. (6 Marks)**
- (Total: 10 Marks)**

### **QUESTION 12**

You are an audit senior of AJB Partners Ltd and you are in the process of reviewing the inventory system for your audit client, CME Ltd which manufactures computer equipment, for the audit of the year ended 31 December 2020. The company's factory and warehouse are based on one large site. CME Ltd is planning to undertake a full inventory count, and in preparation, you have been reviewing the inventory count instructions for finished goods provided by the client.

The count will be undertaken by 15 teams of 2 counters each from the warehouse department with the financial controller providing overall supervision. Each team of two members is allocated a number of units within the warehouse to count and they are provided with sequential numbered inventory sheets which contain product code and quantities extracted from the inventory records. The counters move through each allocated unit counting the inventory and confirming that it agrees with the inventory sheets.

The warehouse is large and approximately 15% of the units were rented out to third parties with similar operations and those units are scattered throughout the warehouse. For completeness, the counters have been asked to count the inventory for all units noting the third-party inventory on separate blank inventory sheets, and the finance department says that it will make any necessary adjustments.

Some of CME Ltd finished goods are of high value and are stored in a locked area of the warehouse, and all counting teams will be given the code to access this area. There will be no dispatches of inventory during the count, and it is not anticipated that there will be any deliveries from suppliers.

Each area is counted once by the allocated team, the sheets are completed in ink, signed by the team and returned after each unit is counted. As no two teams are allocated the same unit, there will be no need to flag that a warehouse area has been counted. On completion of the count, the financial controller will confirm with each team that they have returned their inventory sheets.



**Required:**

- a) **Identify and explain three deficiencies in the counting instructions of CME Ltd** (3 Marks)
- b) **Recommend controls to address each of those deficiencies** (3 Marks)
- c) **Describe test of controls the external auditor would perform to assess if each of these controls, if implemented, is operating effectively.** (4 Marks)

**Hint:** Use the three columns table to show deficiencies, recommendation, and test of control to answer this question.

**(Total: 10 Marks)**

## SECTION C

### QUESTION 13

GB Construction Ltd is a large construction company based in the east of Rwanda. Its main activities are housing development and construction. Its annual revenue is FRW 55 billion and profit before tax of FRW 7 billion.

You are an audit senior for the audit of **GB Construction Ltd** financial statements for the year ended 31 December 2020 and the following matters have come to your attention during the completion stage of the audit in February 2021:

**i. A major customer has gone into liquidation**

One of GB Construction Ltd's major commercial customers has gone into liquidation shortly after the year end. As at the year end, this customer owed the company FRW 750 million.

**ii. Claim for unfair dismissal**

One of the company's construction workers, Kalisa, was dismissed in November 2020 after turning up to work under the influence of alcohol. In December 2020, Kalisa began a case against the company for unfair dismissal. Lawyers for the company have advised that it will be highly unlikely that he will be successful in his claim.

**iii.** In February 2021, a fire was started by vandals at one of the company's five big storage depots, destroying FRW 100 million worth of building materials.

**Required:**

a) ISA 560: Subsequent Events provides guidance on the responsibilities of auditors regarding subsequent events.

**Briefly explain your responsibilities as an auditor for the matters arising up to the date of the auditor's report; matters arising after the date of the auditor's report but before audited financial statements are issued and matters arising after the financial statements have been issued.**

(2 Marks)

b) For each of the three subsequent events identified at GB Construction Ltd mentioned above:

i. **Describe at least two audit procedures you will carry out on them.** (6 Marks)

ii. **Explain whether the financial statements will need to be adjusted by GB Construction Ltd and give your reasons.** (6 Marks)

iii. **Discuss the impact on the auditor's report from each of the subsequent events.** (6 Marks)

**(Total:20 Marks)**

## QUESTION 14

Aldine, an auditor at KMJ Associates, was included in the audit team for Bigger Suppliers Limited to carry out an audit of its financial statement for the year ended 31<sup>st</sup> December 2020. She was assigned to audit sales and trade receivables for the company. Aldine is in the process of sending out receivables' confirmations for a sample selected customers from Bigger Suppliers Limited's receivables as at 31 December 2020.

Out of 6 customers selected, there is Gasenyi supplies Limited, a customer with a receivable balance of FRW 50,000,000 and the management of Bigger Suppliers Limited refused permission to contact him. Furthermore, Bigger Suppliers Limited did not authorize Gasenyi supplies Limited to provide information to the auditor due to disputes between both companies that started from March 2020.

The following is an extract of confirmation results from Aldine's working paper:

Client's name	Amount as per the records (FRW)	Amount confirmed (FRW)	Difference (FRW)	Comments
<b>Excellence Ltd</b>	150,000,000	150,000,000	-	Agreed balance
<b>Milinda Enterprise Ltd</b>	134,000,500	128,000,500	6,000,000	Amount in dispute as per customer's reply
<b>Brian &amp; Sons Enterprise</b>	95,000,000	78,000,000	17,000,000	FRW 17,000,000 paid on 31 December 2020
<b>Kalima Distributors</b>	120,870,000	-	120,870,000	Customer did not reply to the confirmation.
<b>Amani Distributors Ltd</b>	60,500,000	-	60,500,000	Format of the records kept by the customer made him unable to confirm the balance.

**Required:**

- Identify what Aldine would consider while selecting a sample of accounts receivables for external confirmation.** (3 Marks)
- As per ISA 505: External confirmations, explain to Albina what the auditors' response should be when management refuses permission for the auditors to contact third parties for confirmation.** (3 Marks)
- Analyze the confirmation results from Aldine's working paper extract and describe additional audit work would you carry out on each result and comment obtained.** (8 Marks)
- Highlight any four reasons the assurance provided by confirmation will be limited.** (4 Marks)

- e) **Outline any two necessary substantive procedures to verify completeness and accuracy of accounts receivables.** (2 Marks)

**(Total: 20 Marks)**

### **QUESTION 15**

Kabuga Cement Factory Limited is a manufacturer of cement and is a new audit client for your firm. You are an audit supervisor at JKT Associates Ltd and you are currently preparing the forthcoming interim audit and final audit for the year ended 31 December 2020. You are required to assess the sales system and recommend controls improvements to address specific fraud issue and undertake substantive testing of revenue.

#### **Sales ordering, goods dispatched and invoicing**

Kabuga Cement Factory Limited sells cement to a range of large and small cement distributors in several areas of the country. Sales are made through a network of sales staff employed by Kabuga Cement Factory Limited, but new customer leads are generated through a third-party company. Sales staff are responsible for assessing new customers' credit worthiness and propose a credit limit, which is then authorized by the sales director. The sales staff have monthly sales targets, and they are able to use their discretion in granting sales discounts up to a maximum of 15%. Then, they record any discount granted in the customer master data file.

The sales staff visit customers sites personally and orders are completed using a two-parts pre-printed order form. One copy is left with the customer and the other copy is retained by the salesperson. The sales order number is based on the salesperson's own identification number.

The company markets itself on being able to dispatch all orders within three working days. Once the order is taken, the salesperson emails the finance department and warehouse dispatch team with the customer identification number (ID), and the sales order details. From this, a pick list of orders is generated. Sequentially numbered goods dispatched notes are completed and filed in the warehouse.

Sequentially numbered invoices are generated using the pick list for quantities and the customer master data file for prices. Standard credit terms for customer are 30 days and on a monthly basis, sales invoices which are over 90 days outstanding are notified to the relevant salesperson to follow up the payment directly with the customer.

#### **Required:**

- a) **Describe two methods for audit documentation for sales system, and for each one, explain advantages and disadvantages of using the described method.** (8 Marks)
- b) **Identify and explain six control deficiencies in the sales system of Kabuga cement factory Limited and provide a recommendation to address each of these deficiencies.** (12 Marks)

**Hint:** Use a two columns table.

**(Total: 20 Marks)**

**End of Question Paper**