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**CERTIFIED ACCOUNTING TECHNICIAN**  
**STAGE 3 EXAMINATIONS**  
**S3.4 AUDIT AND ASSURANCE**  
**DATE: TUESDAY, 27 APRIL 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.

## **SECTION A**

- 1 Mugabo & Co is the statutory auditor of BKC Hypermarkets Ltd, a small company whose governance is dominated by Mr and Mrs Bazizane, a married couple who jointly own and manage the company.

Which of the following are true of the responsibilities of Mugabo & Co and the BKC Hypermarkets Ltd's directors?

- (i) The directors are the agents of the shareholders
- (ii) Mugabo & Co is the agent of the shareholders
- (iii) Mugabo & Co is accountable to the directors
- (iv) The directors are accountable to the company's stakeholders
- (v) Mugabo & Co must report to the shareholders

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

**(2Marks)**

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- 2 As an audit firm, the partners of PWP & Co are concerned about the firm's liability to third parties in relation to its auditor's reports.

Which of the following is true of the firm's legal responsibilities to third parties?

- A The firm cannot become liable to third parties.
- B The firm will be liable to third parties if it has performed the audit negligently.
- C The firm may be able to disclaim liability to third parties by writing to them.
- D The firm may have a duty of care to third parties where they are considered to be remote from the audit.
- E None of the above

**(2Marks)**

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- 3 You are the audit manager responsible for the audit of Uwase Stationery Ltd, and are in the process of setting performance materiality levels for the specific areas of the financial statements. Materiality for the financial statements as a whole has been set on the basis of the figures in the draft statement of financial position.

Which of the following represents a valid approach to setting performance materiality for each area?

- A Non-current assets are low risk and represent 45% of total assets, so performance materiality will be 20% of materiality for the financial statements as a whole.
- B Trade receivables are high risk and represent 25% of total assets, so performance materiality will be 50% of materiality for the financial statements as a whole.
- C Trade payables are low risk and represent 120% of profit before tax, so performance materiality will be 120% of materiality for the financial statements as a whole.
- D Directors' remuneration is low risk and represents 10% of total assets, so performance materiality will be 20% of materiality for the financial statements as a whole.
- E None of the above

**(2Marks)**

- 4 Agnes is assessing the internal controls of Umulisa Holdings Ltd and is unsure of the purpose of some of the controls in operation at the company.

Which of the following statements regarding internal controls at Umulisa Holdings Ltd are correct?

- (i) Segregation of duties is an important control because it facilitates collusion between fraudsters.
- (ii) Bank reconciliations are relatively unimportant because the bank balance is highly unlikely to be incorrect.
- (iii) Inventory counts are important because the inventory of many businesses is susceptible to loss or theft.

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

**(2Marks)**

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- 5 Jean Damascene is working on the planning section of an audit for the first time and is unsure about how he should select a sample for testing.

Which of the following statements are true of audit sampling?

- (i) If the receivables ledger was the sampling unit, then the individual credit customers would be the population.
- (ii) An anomaly is a misstatement or deviation that is representative of misstatements or deviations in the population.
- (iii) A tolerable misstatement is the rate of deviation that is intrinsic to the system of internal control in operation at the entity.
- (iv) Statistical sampling may include the haphazard selection of items.

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

**(2Marks)**

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- 6 The audit of Kivu Ltd is at the fieldwork stage and the audit trainee, Leoncie, is in the midst of performing procedures in a variety of areas. She is unsure, however, precisely why she is performing these procedures.

Which of the following statements is correct?

- A Leoncie has chosen a sample non-current assets from the register and is physically observing them in order to test the rights and obligations assertion.
- B Leoncie observed test counts of inventory at the year-end date, as a substantive procedure testing the existence of inventory.
- C Leoncie has chosen a sample of sales from sales orders to test the completeness assertion.
- D Leoncie is reviewing a sample of cash receipts after the year end in order to test the occurrence of balances on the receivables ledger.
- E None of the above

**(2 Marks)**

- 7 Brigitte is working on the audit planning for the upcoming audit of BDS Supplies Ltd. She is reading through last year's plan and is trying to understand the approach that was taken to record the company's systems of internal control. A questionnaire was sent to BDS Supplies Ltd which included the following questions:

- Are supplies examined on arrival as to quantity and quality?
- Is this examination evidenced in some way?
- Is the receipt of supplies recorded, perhaps by means of goods inwards notes?

Which of the following best describes the type of questionnaire that was used?

- A Internal Control Questionnaire (ICQ)
- B Internal Control Evaluation Questionnaire (ICEQ)
- C Auditor's Questionnaire on Internal Control (AQIC)
- D Computer Assisted Audit Technique (CAAT)
- E None of the above

**(2Marks)**

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- 8 ISA 230 *Audit documentation* makes certain requirements of auditors regarding the form and content of their audit working papers. Brigitte is currently working on the payables section of the audit file.

Which of the following must an independent auditor be able to understand from the payables working papers?

- (i) The nature, timing and extent of audit procedures performed
- (ii) Whether the auditor would be found liable to third parties if negligent
- (iii) The results of the audit procedures performed, and the effect on the auditor's opinion
- (iv) Significant matters arising and the conclusion reached thereon

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

**(2Marks)**

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- 9 Claude is an audit trainee working on controls testing for the audit of TKC Stores Ltd. He has encountered some difficulties performing the tests and is unsure which of these he needs to resolve with the client himself, and which he needs to ask his supervisor about.

Which of the following matters should Claude refer to or discuss with his supervisor?

- (i) Having looked on the appropriate shelf in the accounts department, Claude has been unable to find the company's purchase invoices for the second quarter of the financial year.
- (ii) Claude has noticed that the payment details given on purchase invoices do not match the bank details of payments made in the payables ledger.
- (iii) While attending the client's annual inventory count, Claude was not sure whether he should be counting the inventory himself.
- (iv) The finance director has told Claude that he cannot look at the company's board minutes because they are confidential documents that he has no need to see.

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

**(2Marks)**

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- 10 Solange is working on the audit of Lakes and Valleys Ltd, and the audit is at the fieldwork stage. While she was making a drink for herself, she overheard a conversation coming from the boardroom, the door to which was closed. Solange heard the company's finance director saying that "at this rate, we will not be in business in three months' time".

Which ethical principle is Solange most likely to have breached?

- A Confidentiality
- B Familiarity
- C Self-interest
- D Integrity
- E None of the above

**(2Marks)**

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## **SECTION B**

- 11 Gatuna Ltd is a large manufacturer of cosmetics, which it sells to retailers. You are Constance Murebwayire, audit manager at BTK & Co, and are planning the audit of Gatuna Ltd's sales system.

Sales orders are received by phone and are noted down by the sales clerk, Charles Musoni, who writes the orders out in rough before filling them in an unnumbered sales order form. Charles then uses the sales order form to enter the sales onto both the company's sales and inventory system and the accounting system, QuickAccount.

Sales orders are then received by Dancille Mukangwije in the company's warehouse, who initiates a production order. When the goods leave the warehouse, Dancille asks Charles to raise an invoice which is included with the goods despatched. Dancille then matches the sales invoice and production order to a goods despatch note (GDN). Goods are not inspected. The matching sales orders, production orders and GDNs are then sent back to Charles, who maintains the receivables ledger in QuickAccount.

**Required:**

With regard to the sales system of Gatuna Ltd;

- (i) **Identify three deficiencies of the system.** (3 Marks)
- (ii) **Describe the implication of each deficiency identified.** (3 Marks)
- (iii) **Recommend improvements to address the deficiencies.** (4 Marks)

**Total (10 Marks)**

- 12 Bukavu Processing Ltd is a processor of locally produced foodstuffs, which are sold onto retailers throughout the country and internationally. Cissy Mugabo, the finance director of Bukavu Processing Ltd, is a strong advocate of the use of computerised accounting systems, and since coming to the company has introduced a degree of computerisation to the company's systems.

The company's operations make extensive use of its website, and the majority of its sales are online. Once a customer places an order on the website, the ordering/sales software automatically verifies the order details, customer address and credit card information prior to orders being verified and goods dispatched. In addition to these online sales, the company makes a significant minority of telephone sales, which require accounts staff to manually input data onto the accounting system.

As a result of the company's use of IT-based systems, the audit manager is considering whether the firm should make use of CAATs, audit software or test data on the audit, alongside more traditional auditing techniques for those parts of the client's systems that are not IT-based.

**Required:**

ISA 500 *Audit evidence* specifies the types of procedure by which the auditor obtains audit evidence.

**(a) Explain and give examples of each of the following types of audit procedure:**

- **Inspection of documentation** (1Marks)
- **Observation** (1Marks)
- **Enquiry** (1Marks)
- **Reperformance** (1Marks)
- **Analytical procedures** (1Marks)

- (b) (i) Define test data** (2Marks)
- (ii) Discuss the principal benefits and drawbacks of using test data in the audit of Bukavu Processing Ltd.** (3Marks)

**Total (10 Marks)**

## **SECTION C**

- 13 You are the audit manager responsible for audit of Nyanza Leisure Ltd, a large firm which owns and operates a chain of high-end resort hotels that are located throughout Rwanda. This is the first year in which your firm has audited Nyanza Leisure Ltd. The audit is currently at the fieldwork stage and several issues have arisen for you to deal with.

The first problem is that the audit supervisor has informed you that there will not be enough time in her budget for her to complete all of the required procedures. Looking through the audit file, you have noticed that the audit fee is just over half the fee paid to the previous audit firm. The time budget was completed by the audit engagement partner.

The second issue is that Vedaste Manzi, Nyanza Leisure Ltd's managing director, has offered the audit senior the chance to stay at one of the firm's hotels for a week at no charge. This offer was made shortly after the audit senior had asked to see some documents relating to his loan account, to which Mr Manzi responded by assuring him that everything was in order and that further enquiries were 'wholly unnecessary'.

The final issue is that it has emerged that Nyanza Leisure Ltd has been operating foreign currency exchange bureaux at several of its hotels for many years, but without an operating licence to do so. The problem was discovered by an audit trainee who has a background working for the National Bank of Rwanda.

### **Required:**

The IESBA *Code of Ethics* places threats to the auditor's independence into several categories.

- (a) **Define and give examples of each of the following types of threat:**

- **Self-review**
- **Self-interest**
- **Advocacy**

(6Marks)

- (b) **Identify and explain any ethical threats that are present, as well as any safeguards to mitigate those threats, in relation to the audit of Nyanza Leisure Ltd.**

(14Marks)

**Total (20 Marks)**

- 14 You are an audit manager at Nyiramutangwa & Co, and are responsible for the audit of Kibuye Gas Refinement Ltd for the year ended 30 June 2020. Kibuye Gas Refinement Ltd operates a methane gas extraction and refinement facility near a lake in the west of the country. The audit is at the start of the planning stage, and three issues have been identified as risk areas for the audit.

The first issue is that as part of its plans for future expansion, Kibuye Gas Refinement Ltd has placed orders for a significant number of new items of plant and machinery that are due to be delivered during June. The company has also signed a contract for the renovation and updating of all its existing plant and machinery. In order to finance this highly material expansion, Kibuye Gas Refinement Ltd has applied for a loan from its bank, but has not yet been informed of the outcome of this application.

The second issue is that there was an explosion during the year at the company's principal extraction facility. Several of the company's employees were seriously injured as a result of the explosion, and are bringing claims against the company for damages. In addition, substantial damage was sustained to an outbuilding of the extraction facility, as a result of which the outbuilding will need to be totally reconstructed. No provisions or amendments have been made to the draft financial statements in relation to these matters.

The third issue relates to the disclosure of directors' remuneration in the financial statements. Disclosure is required of the total remuneration paid to each individual director, together with details of how the remuneration is composed. The financial statements currently disclose the total remuneration paid to the board as a whole.

**Required:**

- (a) **Identify and explain the principal financial statement assertions and audit risks in relation to the above three matters at Kibuye Gas Refinement Ltd.** (5Marks)
- (b) **Explain the principal substantive procedures you would perform to obtain sufficient and appropriate audit evidence in relation to the risks identified in (a).**

(15Marks)

**Total (20 Marks)**

- 15 You are the audit manager responsible for the audit of Kamana Fisheries Ltd for the year ended 30 April 2020. Kamana Fisheries Ltd operates a fleet of commercial fishing vessels together with a processing plant. It makes sales to retail outlets in the region but its performance has been poor over the last year.

A key problem faced by the company over the last year has been the collection of payments from its trade receivables. Its receivables days have risen from 35 in the previous year to 54 in the current year. In order to improve this situation, the company has now employed a credit controller to help manage its receivables ledger balances. The company's cash balance has fallen by RWF 1.2 million over the last three months of the year.

The following is an extract from the draft statement of financial position:

	<i>2020 Draft</i> <i>Frw'000</i>	<i>2019 Audited</i> <i>Frw'000</i>
Trade receivables	11,450	9,870
Cash at bank	2,320	5,455
Total assets	55,740	53,560
Non-current liabilities	5,250	4,450

**Required:**

- (a) **Describe the principal substantive procedures that the auditor should perform in relation to trade receivables.** (10Marks)

ISA 265 *Communicating Deficiencies in Internal Control to those Charged with Governance and Management* requires the auditor to communicate significant deficiencies of internal control to those charged with governance.

- (b) **Explain how the auditor should determine which deficiencies of internal control are significant.** (4Marks)

Management has informed the auditor that it intends to include disclosures in the financial statements regarding uncertainties about the going concern basis of accounting.

(c) (i) **State four operational indicators of risk to the going concern assumption.**

(ii) **Describe the impact on the auditor's report if management makes these disclosures.**

(6Marks)

**Total (20 Marks)**

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