CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATION

A1.2: AUDIT PRACTICE AND ASSURANCE SERVICES

DATE: FRIDAY 01, FEBRUARY 2024

MARKING GUIDE AND MODEL ANSWERS

QUESTION ONE: Jean Perre Group

Marking guide

a) Evaluate the risk of material misstatements to be considered in planning the audit of the Jean Pierre group. Make use of analytical procedures to identify the relevant risks.

Award 1 mark generally for each ratio analyzed including the comparative and ½ mark for any relevant trends calculated. Award 1 mark for each correct calculation and comment on materiality up to Maximum 2 Marks.

Award 1 mark for identification of risk and 1 mark for explanation)
NB: Only the points that specifically related to the scenario should be awarded Marks and generic Marks that make no reference to the case study should not be awarded Marks

(Maximum 25Marks)

b) Recommend any additional information that should be requested from the Jean Pierre group that would allow a more detailed preliminary review to be performed.
Award 1 mark for each information identified up to a Maximum of 6 Marks for the question. (Maximum 6 Marks)

c) What audit procedures will be used in the audit of the impairment of the brand withdrawn and the planned acquisition of Deep Shine beauty?
Award up to 1 mark for every point identified for the procedure with a Maximum 6 points for each element. (Maximum 6 Marks)

d) From the information in exhibit 4, discuss the ethical issues raised by the request to perform the valuation of Blue Horizon.

Award up to ½ mark for each well explained matter and 1 mark for each well explained and relevant response to the matters identified. ½ mark is for identifying the matter while 1 mark is for explaining why the matter is relevant to the specific context in the question. (Maximum 8 Marks)

(Total 50 Marks)

Model Answers

a) **Evaluate the risks of material misstatements to be considered in planning the audit of the Jean Pierre group. Make use of analytical procedures to identify the relevant risks**.

Analytical procedures will involve undertaking comparison of data between 2022 and 2023 to determine whether there are any material variations that cause material misstatements in the financial statements:

	2023	**2022**
Operating margin	35,000/220,000*100 =15.9%	37,000/195,000*100 =19%
Return on capital employed	35,000/(229,000+110,000) = 10.3%	37,000/(82,000+100,000 = 12.2%
Interest cover	35,000/7,000 = 5	37,000/7000 = 5.3
Current ratio	143,000/19,000 = 7.5	107,000/25,000 = 4.3
Gearing ratio	100,000/(100,000+229,000)*100 =30.4%	80,000/(80,000+221,000)*1000 =26.6%

Revenue and operating expenses

The revenue is projected to increase by 12.8% in the year while the operating expenses increased by 17.1%. this explains the corresponding reduction in the operating margin from 19% in 2022 to 15.9% in 2023. The trend in the return on capital employed is consistent, with the return falling from 12.2% to 10.3%.

- The notes from the meeting with the finance director point out that an impairment loss of FRW 30,000,000 has been recognised during the year and assuming that this has been incorporated in the operating expenses, it can help to explain the fact that operating expenses should also increase by FRW 30,000,000. However, the operating expenses have only increased by FRW 27,000 during the year. Without taking into account the impairment loss, it would seem that the operating expenses have only increased by FRW 3,000,000 and this does not seem to reflect the actual position of the company due to the substantial increase in revenue. This creates the risk that the operating expenses are understated and by consequence the operating profit is also overstated.

  Detailed audit procedures are needed to confirm possible omission of expenses from the statement of profit or loss.

- There is also the risk that the revenue is overstated due to the withdrawal of the brand in the group as revenue should have declined as a result of the lost sales from the withdrawal of the brand.

- The interest cover is stable, and the amount recognised is constant at FRW 7,000,000 each year. Since the group has taken a loan of FRW 20,000,000, it is expected that the finance costs would increase in account of the interest accruing on the loan. This means there is a risk that the finance charges and the associated liability are excluded and therefore understated.

- The current ratio has increased sharply from 4.3 to 7.5 and this could be indicative of current assets being overstated or current liabilities being understated. This needs to be discussed with the client as part of the audit planning as a way of identifying overstatement of inventory included in current assets.

- The gearing has increased due to the FRW 20,000,000 loan that was taken out by the company. The company has agreed with the Bank of Kigali for a loan facility of FRW 1,300,000,000 for the acquisition of Deep Shine Beauty. This will increase the gearing to 50.1%. There is need to ensure there is compliance with IFRS 9 financial instruments to avoid understating liabilities. As the loan is material at 36.3% of total assets, its omission or understatement presents a significant risk. Disclosure of these loans may not be done, and this will present a risk of non-compliance with the standards.

- A loan of FRW 20,000,000 was used to finance a specific new product development project. The development costs identified as intangible assets have increased by only FRW 15,000,000. The difference of FRW 5,000,000 is not explained by the analytical review of the draft financial statements and there is a risk that not all the amounts spent on the development costs has been capitalized thus understating assets. This means there is a need to obtain more information regarding the loan of FRW 20,000,000 to show exactly how it was used in terms of whether it was for research and development and which costs were incurred using the loan.

- The retained earnings have increased by FRW 8,000,000. The projected profit for the year is FRW 25,000,000, which creates an unexplained reconciling item between retained earnings brought forward and carried forward. The difference could be due to payment of dividends in the year, but this will require additional information to confirm the details and ensure there is no misstatement.

- The property, plant and equipment useful life were changed and as a result the profit has increased by FRW 5,000,000 which represents 17.9% of profit before tax and makes it material to the financial statements. The change in accounting estimate is permitted but the audit team needs to consider whether this is justified so that if it is not appropriate then the change would need to be corrected.
- The finance director indicated that the brand name was impaired by FRW 30,000,000. However, the brand name intangible asset has reduced by FRW 35,000,000 in the year which means there is some unexplained reduction of FRW 5,000,000. This could have been caused by the impairment or sale of another brand and this will require additional information to explain. The audit team needs to verify whether the FRW 30,000,000 impairment recognised in the financial statements relates to the withdrawn brand. The amount written off is 8.4% of group assets and 107% of profit before tax. This will be highly material and separate disclosure will be required which means there is a risk that the separate disclosures have not been done.

- There is a risk that the inventories are overstated if some of the items relating to the withdrawn brand are included within current assets. Any products relating to the withdrawn brand should be written down to the lower of cost and the net realizable value in accordance with IAS 2 inventories which means that failure to do that will make the inventories to be overstated as the net realizable value is likely to be zero.

- There is a possibility that the non-current assets used in production in the withdrawn brand will need to be measured and disclosed according to IAS 36 impairment of assets or IFRS 5.

- If some legal action has been taken against the company by some customers, it is possible that some provisions have not been made as required by IAS 37 provisions, contingent assets and contingent liabilities. This has the potential of making the liabilities understated and the operating profits overstated.

- The goodwill recognized in the statement of financial position represents 5% of total assets and is therefore material. An impairment review of goodwill needs to be carried out in accordance with IAS 36 impairment of assets. This means there is risk that the goodwill has not been impaired and that the assets are overstated and profits overstated.

b) Recommend additional information that should be requested from the Jean Pierre group that would allow a more detailed preliminary review to be performed.

- The analysis of revenue to show revenue associated with key brands of the group with indication of the contribution from the withdrawn brand.
- A breakdown of revenue by month to establish when sales of the brand ceased.
- Details of the loan taken out, including a copy of the new loan agreement to establish interest rate payable, repayment terms and any extra borrowing costs incurred.
- Obtain evidence of both current and deferred tax.
- A breakdown of current assets into individual figures for inventories, receivables, and cash.
- Breakdown of current liabilities to establish reasons for decrease from the previous year.
- Copies of any agreements with the bank so that terms can be verified including the anticipated date of receipt of the funds and the impact on the financial statements.
- Explanation on how the FRW 20,000,000 raised from the loan has been utilized to determine the correct classification.

c) Audit procedures to be used in relation to the impairment of the brand withdrawn and the planned acquisition of Deep Shine Beauty limited:

- Obtain management calculations relevant to the impairment and review to understand the methodology used and whether the brand is entirely or partially written off.
- Evaluate assumptions used by management in the impairment review to determine if they are reasonable.
- Confirm the carrying amount of the brand withdrawn before impairment to the previous year's financial statements or management accounts.

- Obtain a breakdown of operating expenses to confirm that the impairment loss is included.
- Read the minutes of the board to understand the reasons for the acquisition and to see that the acquisition is authorized.
- Discuss with the management of the group to ascertain how control will be exercised and whether the parent company will be appointing the directors of Deep shine beauty limited.
- Review the minutes of the meetings that were held between the management of the group and Deep Shine beauty limited to confirm when the acquisition is likely to take place, the time that it will take to complete, the amount and nature of the price to be paid, the shareholding to be acquired, and how operations will be integrated.
- Obtain and review due diligence reports that have been obtained by the group and review for issues that require disclosure.
- Obtain and review the financing agreement with Bank of Kigali that was used to obtain funds for the acquisition.

d) Ethical issues raised by the request to perform valuation of Blue Horizon:

A conflict of interest is likely to arise when a firm provides a service to two or more clients who are competitors as their interests are in conflict. In this regard, The Jean Pierre group wants to acquire Deep shine beauty as well as blue horizon, companies that are direct competitors. While the Jean Pierre group will negotiate to pay a low price in the acquisition, the owners of Deep shine will seek to get a high price and as a consequence this is likely to create conflict. The fact that Mutoni associates is auditor to both companies means that it is possible for information about one company to be passed on to the other company thus compromising confidentiality.

There will be a self-review threat when performing a valuation exercise. This is because Mutoni and associates will eventually have to audit the books of Blue Horizon and this will cause a self-review threat as they will be auditing a valuation amount that they worked on.

It is possible for the threat to be reduced to a manageable level and this will require that different teams are used in the valuation and the audit so that those that participate in the valuation are not involved in the audit. The teams involved will be required to sign a non-disclosure agreement indicating their commitment not to disclose any confidential information from one entity to the other. The international code of ethics for professional accountants provide that a firm should not provide valuation services for a listed company if the valuation has a material effect on the financial statements which are consequently audited.

Before accepting the assignment, it will be necessary to establish the potential impact of the transaction. Where the impact is considered to be material and there is no possibility to reduce to an acceptable level, then the assignment should be politely declined.

QUESTION TWO

Marking Guide

a) Comment on the suitability of the advertisement discussing any ethical and professional issues raised

Award ½ mark for each point for evaluation and up to 1 mark for each response for a Maximum of 7 Marks. (7 Marks)

b) Give your comments on the quality control, ethical and professional issues raised in relation to the audit of Bizimana limited specifically on the following:

i) Audit fees

Award 1 Mark for each point for a Maximum of 6 points (6 Marks)

ii) Use of the foreign office for audit.

iii) *Award 1 mark for each point for a Maximum 5 Marks* (5Marks)

iv) Former director of Bizimana working for Kwizera as audit partner.

v) ***Award 1 mark for each point for Maximum 7 Marks*** (7 Marks)

(Total: 25 Marks)

Model Answers

a) Suitability of the advertisement discussing ethical and professional issues raised

Advertising for professional work in audit is expected to comply with the guidelines for professional accountants. Accountants are permitted to advertise subject to the ethical guidelines. The advertisement should not reflect adversely on the professional accountant or the profession. In this case, the advert does not seem to be compliant with the guidelines. This is because it suggests other firms charge excessively high fees and that their service quality is not to the best standard. This causes discredit to the services offered by the other accountant and also implies that the services of Ralph and co are more superior than those of other professional accountants.

The advert indicates that the firm offers 'the most comprehensive range of finance and accountancy services in the Rwanda'. This information is highly misleading because the firm has an office only in Kigali and only 4 partners. It is highly unlikely that they can offer the range of services advertised as the most comprehensive as they do not appear to have the staff capacity for it. This statement should therefore be withdrawn from the advert to avoid misleading potential clients.

The advertisement tries to imply that the firm has the leading tax team in Rwanda. This is a statement that is impossible to comprehensively prove. In this regard, this sentence should be removed from the advertisement. The advert also implies that the tax experts are waiting to save the client money, yet this is not appropriate. This approach is wrong because professional accountants should not guarantee reducing tax and failure to apply the required tax legislation will be wrong and inappropriate. This sentence should be removed from the advert.

Guaranteeing to be cheaper than other service provision will lead to lowballing and this raises potential self-interest threats. It can compromise professional competence of the auditor to exercise due care. The accountant should apply the appropriate professional standards that are appropriate for the level of fees being charged.

Offering business advise to clients has the potential to create self-review threats and this should not be emphasized in the adverts. The offer of business advise can only be done when the firm is able to maintain different teams for the business advise and for the audit services.

The offer of free service as part of the promotion is not prohibited but is also creating lowballing. This means that it can be seen only as promotional and not part of professional service.

b) Comments on the quality control, ethical and professional issues raised in relation to Bizimana limited for audit fees, use of foreign office (Offshoring) and former finance director in client company becoming a partner.

i) **Audit fees:** The refusal by Bizimana limited audit committee to increase audit fees despite the company operations expanding creates an intimidation threat for Kwizera and Associates. This is because the audit firm can be tempted to accept the audit despite knowing that it will create problems relating to completion and quality due to the low fees. It is essential for the engagement partner at Kwizera and associates to discuss this issue with the audit committee of Bizimana as a way of ensuring the effectiveness of the audit process as well as its objectivity and quality so that it is not compromised in any way. The pressure resulting from this has now led to an increase in materiality level and this could lead to the risk that insufficient audit evidence may have been obtained in supporting the audit opinion. The review process was also not done and the engagement partner needs to ensure appropriate quality control measures are undertaken so that the audit quality is not compromised. Based on the fact that the refusal to accept higher fees is likely to compromise the quality of the audit, then the engagement partner needs to decide whether to continue with the engagement or not and if it is felt that the pressure is too high then the firm should resign from the audit.

ii) **Use of foreign office:** Kwizera and associates can undertake any audit assignments using the foreign office through the process of offshoring as it is allowed in audit provided it does not compromise the audit quality.

The performance of low-risk assignments by the overseas/foreign office would be acceptable but in the case of Kwizera it is clear that the foreign office will be performing some complex review assignments with relatively higher risk such as the review of board minutes and this could lead to compromising quality as the team will not possess adequate knowledge about the client. This will lead to inability to identify relevant matters that will be relevant for the other audit team members.

Any continued use of the overseas office will require adequate quality controls to be put in place to ensure that only appropriate tasks are included for the overseas office. Monitoring and review procedures should be left to the home office in Kigali.

iii) **Appointment of former finance director:** The finance director of Bizimana limited joining Kwizera and associates creates self-review threats for Kwizera and associates. This is because after becoming a partner, he is likely to audit work that he participated in complying while working for Bizimana limited.at the same time, there will also be familiarity threats as the finance director know most of the senior officials in Bizimana very well and will likely wish not to put them into problems. In order to cover them, it will lead to a compromise of the audit work and as a consequence it will lead to loss of objectivity. The finance director should therefore not be included in the audit team that will be auditing the financial statements of Bizimana limited after becoming a partner of Kwizera.

It is also indicated that the finance director held shares in Bizimana limited from July 2023 to January 2024 and this likely created self-interest threats as it would not have allowed him to make decisions that are objective. This is a concern because it seems that there was no disclosure of financial interest by the finance director and can put to question whether this is applicable to any of the other partners at the firm.

The firm is also using cross-selling of non-audit services. This is likely to create self-interest threat because the team members will be seeking to get services based on how much they are likely to get as payment rather than the consideration of the competence of the firm and the quality work to be done.

QUESTION THREE

Marking Guide

Evaluate the quality management issues and implications for the completion of the audit in respect of trade payables, petty cash, revenue and tax calculations.

Award up to 1.5 Marks for each issue and implications or actions identified. Also, up to 1 mark for each matter identified for communication to management.

Maximum 25 Marks from four elements to be discussed. **(Total: 25 Marks)**

Model Answers

Quality management issues and the implications for the completion of the audit in respect of trade payables, petty cash, revenue and tax calculations.

i) **Authorization by the procurement manager:** The absence of evidence of authorization by the procurement manager for the three purchases identified is not representative of the operations of the internal controls as they are considered effective. The review of the supporting documentation and the conclusion that the items were legitimate business expenses does not completely resolve the exception in the controls lapse. There is a risk that other exceptions and unauthorized purchases may have occurred that were not business expenses and which may have remained unidentified. This is indicative of the fact that the audit procedures used may have been inadequate. The audit assistant should have reported this issue to the audit manager and finally to the partner in order for them to assess how serious the issue was and whether further work was needed. In this case the audit engagement partner needs to consider an assessment of the internal controls by the team so that the original sample size can be increased to try and identify other exceptions. This matte can be considered for inclusion in the management letter. This is because auditors are required by ISA 260 communication with those charged with governance any deficiencies that are encountered during audit.

ii) **Expenses for taxi fare:** The personal expenses for taxi fare that are found within the petty cash represent fraudulent transactions by the cahier and should be reviewed. This is because ISA 240 the auditors' responsibilities relating to fraud in an audit of financial statements states that the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. As a consequence, it is essential for the auditor to communicate the deficiencies identified. The amount of FRW 175,000 is not material to the financial statements. A review of the petty cash records should be done for evidence of any further irregularities and discuss the matters with management. Where it is assessed that the matter increases the overall assessment of fraud and control risk, the management should be informed.

The relationship between the audit assistant and the petty cashier represents a familiarity threat and the failure of the audit assistant to highlight the matter indicates a lack of professional integrity on his part. The engagement partner needs to continuously monitor the ethical requirements throughout the audit process and the assignment of staff to various assignments should reflect a review of the ethical implications from familiarity and other factors.

iii) **Revenue recognition:** The recognition of revenue in accordance with IFRS 15 Revenue from contracts with customers requires that an entity recognise revenue when or as the entity satisfies the performance obligation by transferring the promised goods or services.

The revenue in this case has been recognised very early because the entity recognised revenue immediately after receiving an order. The consequence of this is to overstate revenue, receivables and profits.

The error represents 17,880/8,700,000 = 0.2% of revenue. Based on the occurrence of errors and the level of sales to the customer the error should be further assessed to determine potential for material misstatement. Cut-off testing should be extended to assess any further potential for material misstatement. The auditors should discuss with the management that the invoicing procedure is not widely applicable in the organization to other transactions. The misstatements identified should be communicated to management and the auditor should request that the errors are corrected.

iv) **Provision of tax services:** Any services provided to calculate the tax provision for a client will represent self-review threat for the auditor because the tax provision calculated will be included in the statement of profit or loss for the year. There is risk of doing the calculations because the client company is listed on the stock exchange and auditors should not calculate the tax for these publicly listed entities. The auditor should not participate in the calculation of tax for the entity as it significantly reduces objectivity and independence of the auditor. The auditor should report the lack of skill on the part of the finance director in calculating tax as well as the independence issues relating to the refusal to calculate tax provisions for the client. The inability of the finance director calls into question the recruitment and training procedures used by the client entity and the auditor can suggest that these procedures should be improved to get the staff that have the right set of skills and knowledge.

QUESTION FOUR

Marking Guide

i) Evaluate matters which should be considered before your firm accepts the invitation to undertake the assurance engagement on the sustainability report of Amahoro limited.

Award 0.5 mark for each material identified and 1.5 Marks further Marks for explanation of the matters identified for a Maximum of 8 Marks. (8 Marks)

ii) Recommend the procedures that could be used to verify the number of serious accidents in the workplace and the average annual spending on training per employee. Identify difficulties in measuring and reporting on social and environmental performance.

Award 0.5 marks for each specific procedure identified and explained for a Maximum 4 Marks. For the difficulties in measuring social and environmental performance, for a Maximum of 6 Marks for the whole question part. (6 Marks)

b**) Explain the meaning of the term professional skepticism and discuss its importance in planning and performing an audit**

Award up to 1 Mark for correct meaning of scepticism and 0.5 Marks for each point identified and discussed and 0.5 marks for the explanation offered for a Maximum 4 Marks. (4 Marks)

c) i) **Discuss how professional skepticism should be applied to the statement made by the group finance director**

Award up to 1.0 Marks for each point identified and explained with 0.5 mark for identifying the point and 0.5 Marks for the explanation on professional skepticism application for a Maximum 3 Marks. (3 Marks)

ii) **Design the principal audit procedures that should be performed on the impairment of goodwill.**

Award up to 1 mark for each point with 0.5 mark for identifying the point and 0.5 mark for explaining the point for a Maximum of 4 Marks. (4 Marks)

(Total: 25 Marks)

Model Answers

Evaluating matters that should be considered before accepting assignment on sustainability report review and recommendation on procedure to be used to verify the number of serious accidents and annual spending on training per employee as well as difficulties in measuring and reporting on social and environmental performance.

a) i) **Matters to consider before accepting the invitation to undertake assurance engagement on the sustainability report of Amahoro limited:**

- Objectivity – this is with regards to the fees charged from the additional service and whether it represents a threat to objectivity as a percentage of total fees. Self-review, advocacy must all be considered to determine whether they represent threats to the independence of the auditor. The assignment can only be accepted where the it does not represent a threat to independence and where there is significant threat to independence then it should not be accepted.

- Competence – this is on the basis of having the specialist knowledge on social and environmental assurance as the relevant department has only been recently established. The professional competence required is a critical element in ethical considerations and should guide whether the assignment is accepted or not. This is essential because some of the issues to be reviewed are very highly specialized such as the confirmation of carbon dioxide emissions and the energy use in the company that may require some set of specialized skills.

- Scale of the engagement – the auditor must consider the extent of the work that needs to be done and assess whether there will be time and the staff to perform the work as required. As indicated in the question, the client entity has 25 environmental KPIs and 50 social KPIs disclosed and without the right set of knowledge and skills it will be impossible to assess all of them.
- Availability of time and pressure arising – this should be considered because it is indicated that the financial statements are scheduled to be published within four weeks. This is a very short period of time and it may not be possible to complete the assignment within the time allocated. This means the auditor must seek clarification on whether the report on sustainability KPIs will be included within the annual report or can be reported on separately. In the case where it can be issued separately then the assignment can be accepted but if it is part of the annual report then it will be impossible, and the assignment should be politely declined.

- The assignment may represent a high amount of fees and the costs associated with the assignment are also likely to be very high. In this case, the auditors should consider whether the assignment can be undertaken within carefully managed costs to ensure the assignment is profitable for the firm and does not lead to losses. The fact that the assignment may need to be done withing a very short period of time indicates that a high level of fee should be negotiated.

- Risk – the fact that Amahoro limited has global operations and is listed on several stock exchanges means that it is widely known and stakeholders such as pressure groups will be keen on its operations to determine how it affects the environment. With this in mind, the auditors should consider this risk in establishing whether amahoro should be accepted for the review of the sustainability report. With a public profile, it is possible for amahoro limited to try and manipulate some of the KPIs to appear favorably to the stakeholders and the auditors should assess whether the risk is high and whether they would want to be associated with the company.

ii) **Procedures to verify the number of serious accidents in the workplace:**

- Review of records that provide a summary of the number of accidents and types of accidents that are reported in the workplace.
- Review the accident log book from a sample of locations within the workplace
- Discuss what the organization considers to be serious accidents and establish the criteria used is appropriate for the review to be done
- Review the correspondence with legal advisors that may indicate legal action being taken against Amahoro limited for serious accidents in the workplace
- Review the minutes of the board meetings for discussions of any serious accidents and any implications arising for the company
- Enquire whether the company has received any health and safety visits and review documentation from such visits as evidence of any serious accidents that may have occurred.
- Discuss with employees to identify whether any accidents have not been recorded in the accidents log or occurrence book
- For the training of employees, review the approved training budget in comparison with the last year to determine the overall level of planned spending on training
- Obtain a breakdown of total training spend and review for items wrongly classified as training costs
- Confirm the various components that are part of the training spending through supporting documents such as per diem and reimbursement of training costs for staff
- Confirm the amount of training programs by checking the cash book or bank statements
- Recalculate the annual spending per employee using the data obtained on the total number of employees from payroll department.

Difficulties in measuring and reporting on social and environmental performance:

- Measurements of social and environmental performance are not easy to define and will present challenges to determine exactly what needs to be measured.
- Targets and KPIs are very difficult to quantify in monetary terms and will be problematic to assess in terms of performance
- In most organizations there are no systems and controls for capturing the data that would allow accurate measurement of the social and environmental performance especially on aspects of performance that are non-financial. Matters relating to donations can be captured by the accounting system but other matters will not be captured as the systems for capturing this aspect of performance is mostly missing in most organizations.
- It is extremely difficult or impossible to undertake any comparisons of targets and KPIs between different organizations based on the fact that there is no strict or standard definition of these elements of performance and this makes it difficult to compare two entities to establish which one performs better than the other.

b) **Professional skepticism** is defined in ISA 200 *overall objectives of the independent auditor and the conduct of an audit in accordance with international standards on audit* as the attitude that involves a questioning mind, being alert to conditions that may indicate possible misstatement due to errors and fraud and critical assessment of audit evidence.

Auditors are required to plan and perform audits with professional skepticism by recognizing that circumstances can exist which cause the financial statements to be materially misstated. This is important at all stages of the audit as it can help to reduce audit risk.

- It helps auditors to be alert to the existence of contradictory audit evidence and being able to assess any assumptions and judgements much more critically and without any bias.
- It also allows auditors to consider reliability of information provided by management in the course of the audit.
- The fact that financial statements can be prepared by making use of fair values means that auditors must be keen to apply professional scepticism to get the correct amounts and confirm the financial statements are not misstated.
- It helps to reduce audit risk by ensuring that the auditor has sufficient audit evidence in relation to areas of high risk of material misstatement.

c) i) The finance director of the Twizera group is providing instructions on how the audit should be conducted. It is the audit manager that should be able to decide how the audit will be conducted by deciding the extent of the audit procedures according to the risk of material misstatement. The audit manager should assess why the finance director insists on his file being used as the main source of audit evidence as it is possible that he could be hiding some information. The group profit before tax has declined by an average 0f 33% which is an indicator of significant impairment loss of more than FRW 5,000,000. There is a risk that the impairment loss is understated. The auditor needs to obtain evidence on the assumptions used and confirm that they are in accordance with the management assessment of risk. The auditor should apply skepticism to the statement that the assumptions are the same as last year because there could be new factors that affect the impairment

ii) Audit procedures for the impairment of goodwill

- Confirm the assumptions used in the impairment to check if they agree with the auditors understanding of the business on the basis of risk assessment.
- Confirm the impairment review is inclusive of goodwill relating to all business combinations.
- Consider the impact of the auditor's assessment of going concern on the impairment review such as impact on growth rates.
- Obtain a proper understanding of the controls over the management's process of performing impairment tests.
- Confirm if the management has performed an impairment test or they have used an expert for the impairment review.
- Check the methodology that was used for the review with calculations and discount rates and confirm with auditor's knowledge.
- Develop independent estimates of the impairment and compare with that of the entity.
- Perform a sensitivity analysis to consider whether management has considered alternative assumptions.
- Check for arithmetic accuracy of the calculations done.

END OF MARKING GUIDE AND MODEL ANSWERS