CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATIONS

I1.4: AUDITING

DATE: XX, AUGUST 2025

MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE

Marking Guide

Qn	Description	Marks	Total Marks
a	Award 1 mark for each any 5 steps and 1 mark of a well explanation of the methodology of an audit	10	10
b (i)	Event 1 – Fire on 10 April 2025:		
	Award 1 mark for a correct type of subsequent event i.e non-adjusting event	1	
	Award 1 mark for a valid justification	1	
	Event 2 – Major contract signed on 30 April 2025:		
	Award 1 mark for a correct type of subsequent event i.e non-adjusting event	1	
	Award 1 mark for a valid justification	1	4
b (ii)	Appropriate audit procedures for subsequent event:		
	Answers do not need to be discussed. Briefly stated answers are enough.		
	Event 1 – Fire on 10 April 2025:		
	Award 1 mark for each correctly stated audit procedure (1 mark * 3 audit procedures = 3 marks)	3	
	Event 2 – Major contract signed on 30 April 2025:		
	Award 1 mark for each correctly stated audit procedure (1 mark * 3 audit procedures = 3 marks)	3	6
Total Marks			**20**

Model Answers

a) key stages of the audit methodology that TrustAudit & Co. will follow when auditing TEKINIKA Ltd are the following:

- Determine the scope and the audit approach: Legislation and the auditing standards lay down the scope for statutory audits. An auditor should prepare a plan for his audit.
- Ascertain the system and controls: Discuss the accounting system and the flow of documents with all the relevant personnel in the company. Document all your notes. Some auditors do flow charts, narrative notes and/ or internal control questionnaires. Get to know the client's business. Confirm that you have recorded the system accurately by carrying out walkthrough tests.
- Assess the system and internal controls: Evaluate the system as it is, to weigh up its reliability and draw up a plan to test its effectiveness. At this stage you could draw up a letter to management recommending any improvements you consider from your findings. In addition, what you have learned here may influence the type of further audit testing you may carry out later on.
- Test the system and internal controls: Above, you evaluated the controls that are in place. Now you need to test that they were effective, compliance tests will cover many more transactions than the walkthrough tests. You need to carry out a representative sample through the accounting period.

  If you can establish that the controls are indeed effective, you can reduce the amount of detailed testing later on. However, if the controls turn out to be ineffective, then more substantive tests will need to be carried out.
- Test the financial statements: This section covers the substantive testing which has been described earlier. You are effectively trying to stand over the figures in the financial statements. Substantive tests are audit procedures performed to detect material misstatements. Remember, if you think that any error you might find in a class of transactions will not be significant, then there is little point carrying out the substantive test.
- Review the financial statements: After all the testing has been done and the evidence gathered, you should review the accounts as to their overall reliability making a critical analysis of the content and presentation.
- Express an opinion: You need to evaluate all the evidence you have gathered and express an opinion on a set of accounts by way of a written audit report. You may, in addition, write a management letter which can set out improvements you recommend or to place on record specific points in connection with the audit.

b) Based on the information provided:

i) Advise whether each of the subsequent events is an adjusting or non-adjusting event.

Event 1 – Fire on 10 April 2025

The destruction of the backup servers may be a non-adjusting event since the fire occurred after the reporting date and does not relate to conditions that existed on 31 March. However, if the loss of source code affects the going concern status or the carrying value of certain intangible assets, the team must consider whether disclosure is needed under IAS 10.

Event 2 – Major contract signed on 30 April 2025

This is clearly a non-adjusting event as it reflects a new business opportunity arising after the year-end. However, it may be significant enough to warrant disclosure if it could influence users' decisions.

ii) State appropriate audit procedures the team should perform in response to the subsequent events encountered.

Event 1: Fire on 10 April 2025 – Damage to Backup Servers

Audit Procedures:

- Inquire of Management and IT Personnel: Ask about the extent of the damage, whether critical systems or data were lost, and if operations were significantly interrupted.
- Inspect Insurance Documentation: Review insurance policies and claims filed to determine if losses are covered and the estimated amount of compensation.
- Evaluate Impact on Financial Statement Items: Assess whether any intangible assets (e.g., capitalized development costs) should be impaired due to loss of original source code or related documentation.
- Review Internal Incident Reports: Obtain internal documentation or board minutes detailing the fire, its causes, and management's planned response.
- Assess Adequacy of Disclosures under IAS 10: Determine if sufficient and appropriate disclosure has been made in the notes to the financial statements about the nature of the event and its financial impact.
- Recalculate Estimated Losses: Review management's estimates of the financial loss from the damage, including unrecoverable costs, and validate assumptions used.
- Perform Going Concern Assessment: Consider whether the loss affects the company's ability to continue operating for the foreseeable future (12 months post year-end).
- Obtain Written Representations: Include representations from management confirming completeness of disclosures and that all events up to the auditor's report date have been communicated.

Event 2: New Major Contract Signed on 30 April 2025

Audit Procedures:

- Inspect the Signed Contract: Examine the contract for terms, amounts, timing of payments, and obligations that may affect TEKINIKA's future financial outlook.
- Discuss the Contract with Senior Management: Confirm their understanding of the significance of the deal and its expected impact on operations and revenue in the upcoming period.
- Review Forecasts and Budgets: Evaluate how the contract affects future projections, especially if used in support of going concern assessment.
- Assess Disclosure Requirements: Consider whether the contract should be disclosed under IAS 10 as a non-adjusting event that is material and relevant to users of financial statements.
- Review Board Minutes or Management Reports: Look for internal discussions and decisions regarding the contract, to understand strategic significance and any financial implications.
- Evaluate Timing and Substance of Revenue Recognition: Ensure that no revenue from the new contract has been prematurely recognized in the 2024/2025 financial statements.
- Obtain Written Representations from Management: Get confirmation that no revenue was recognized and that full disclosure of material post-year-end contracts has been made.

QUESTION TWO

Marking Guide

Qn	Description	Marks	Total Marks
a	Fundamental principles of professional ethics:		
	Answers must be explained to score 2 marks each. If answers are not explained, award 1 mark each		
	Integrity	2	
	Objectivity	2	
	Professional competence and due care	2	
	Confidentiality	2	
	Professional behaviour	2	10
b	Materiality:		
	Computation of Preliminary materiality i.e. Frw 60 million	2	
	Comparison of Misstatement to Materiality Threshold i.e. Frw 300 million vs Frw 60 million	1	
	Noting that the misstatement is material	1	
	Conclusion or justification (Any valid justification for concluding that the misstatement is material is acceptable)	2	6
c	Definition of risk-based audit approach (Alternative valid definitions are acceptable)	1	
	Award 3 marks for any valid relevance relation of relevance to audit of SIMA	3	4
Total Marks			**20**

Model Answers

a) ***Fundamental principles of professional ethics*** **that the audit team must adhere to when auditing SIMA Ltd.**

The five fundamental principles are below:

- Integrity: Members shall be 'straightforward and honest in all professional and business relationships'.
- Objectivity: Members shall 'not allow bias, conflicts of interest or undue influence of others to override professional or business judgements'.
- Professional competence and due care: Members have a continuing duty to 'maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards'.
- Confidentiality: Members shall 'respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, or unless there is a legal or professional right or duty to disclose'. Confidential information acquired as a result of professional and business relationships must not be used for the personal advantage of members or third parties.
- Professional behaviour: Members shall comply with relevant laws and regulations and avoid any action that discredits the profession.

b) Assume that Kiza & Co. has set a preliminary materiality threshold at 5% of profit before tax. Based on the data provided, compute whether the overstatement of Frw 300 million in inventory is material. Justify your answer.

Calculation of Preliminary Materiality

- Profit before tax = Frw 1.2 billion
- Preliminary materiality = 5% × Frw 1.2 billion = Frw 60 million

Comparison of Misstatement to Materiality Threshold

- Identified misstatement (overvaluation of inventory) = Frw 300 million
- Since Frw 300 million > Frw 60 million, the misstatement is material

Conclusion:
The overstatement of inventory by Frw 300 million is material as it exceeds the set threshold. It could mislead users of the financial statements by overstating both current assets and net profit (through cost of sales understatement). Therefore, the auditor must request an adjustment, and if

management refuses, the auditor may need to consider a qualified opinion, in accordance with *ISA 705: Modifications to the Opinion in the Independent Auditor's Report*.

c) Define the term risk-based audit approach and explain its relevance to the audit of SIMA Ltd.

A risk-based audit approach is a strategy in which the auditor focuses audit efforts on areas where there is a higher risk of material misstatement in the financial statements.

Under this approach, the auditor:

- Identifies, assesses and concentrate on high risk of material misstatement at the financial statement and assertion levels.
- Designs and performs audit procedures that respond to those assessed high risk areas.
- Allocates more time and procedures to high-risk areas (e.g., revenue recognition, inventory valuation).

Application to SIMA Ltd:

In the case of SIMA Ltd:

- The implementation of a new ERP system may have compromised internal controls, especially over inventory classification. This represents a significant risk.
- The auditor would need to perform substantive procedures (e.g., physical inventory verification, valuation tests) and potentially involve IT specialists to assess system reliability.
- Routine or low-risk areas would receive proportionately less audit focus.

This strategic allocation of audit effort improves audit efficiency and effectiveness while ensuring compliance with auditing standards.

QUESTION THREE

Marking Guide

Qn	Description	Marks	Total Marks
a	Appointment of auditors:		
	Awarding 1 Mark for every validly stating appointment of a particular auditor is authorised by the shareholders by ordinary resolution	1	
	Awarding 1 Mark for every validly stating appointment by the Board of Directors	1	
	Awarding 1 Mark for every validly stating Appointment by the Registrar General has the powers to direct the company to appoint its auditor within thirty (30) days if no auditor is appointed or automatic reappointment	1	
	Stating that the salary and other expenses for the auditor are determined by the general meeting of shareholders or the Board of Directors	1	4

b	Substantive audit procedures for provisions:		
	Alternative valid answers are acceptable		
	Award 2 marks for any valid audit procedure (2 marks * 4 points = 8 marks	8	8
c	Substantive audit procedures for revenue:		
	Alternative valid answers are acceptable		
	Award 2 marks for any valid audit procedure (2 marks * 4 points = 8 marks	8	8
Total Marks			**20**

Model Answers

a) Explain how auditors are appointed for companies like LINK Rwanda Ltd in Rwanda.

In Rwanda, the appointment of external auditors is governed by both the Law governing companies (Law No. 007/2021 of 05/02/2021).

For a company like LINK Rwanda Ltd, the appointment of a particular auditor is authorised by the shareholders by ordinary resolution.

The first auditor of the company may be appointed by the Board of Directors without the approval required above, and auditors so appointed, unless removed, hold office until the conclusion of the company's first general meeting or until twenty-eight (28) days after the date that the company's annual accounts are sent to shareholders, whichever is the sooner.

In case no auditor is appointed in accordance with the above paragraph, the Registrar General has the powers to direct the company to appoint its auditor within thirty (30) days. or where the existing auditor has not resigned or incapacitated and there is no resolution by share holders to remove him, he is automatically re appointed.

The salary and other expenses for the auditor are determined by the general meeting of shareholders or the Board of Directors.

In the case study, since the former auditor resigned mid-year, the Board has proposed a new auditor, but shareholder approval is pending, which means the appointment is not yet valid. This must be regularized before the new audit can officially proceed.

b) With reference to *IAS 37: Provisions, Contingent Liabilities and Contingent Assets*, **discuss the substantive audit procedures that should be performed to verify the Frw 450 million provision for the legal claim in LINK Rwanda Ltd's financial statements.**

The provision of Frw 450 million recognized by LINK Rwanda Ltd for the pending legal claim must be audited in accordance with the recognition and measurement criteria under *IAS 37: Provisions, Contingent Liabilities and Contingent Assets*.

The audit team should perform the following substantive procedures:

- Obtain legal letters or correspond directly with the company's legal counsel to confirm the status of the claim, likelihood of loss, and estimated financial exposure.
- Review correspondence and court documents related to the accident and claim to assess whether the obligation exists and when it arose.
- Assess management’s basis for estimating Frw 450 million, including assumptions, negotiation status, and documentation of expected settlement.
- Evaluate whether the classification is appropriate to be classified as probable contingent liability.
- Review board minutes or internal communications for any discussion of the legal claim and associated risks or decisions.
- Inspect subsequent events (up to the audit report date) for any developments in case of such developments that may affect the estimate or require reclassification or disclosure the auditor should discuss with management.

c) Identify and explain appropriate substantive procedures the auditor should apply to test the completeness and accuracy of LINK Rwanda Ltd’s sales/revenue for the year ended 31 December 2024.

Substantive procedures for sales/revenue may include:

- Perform analytical procedures to compare actual revenues with budgets, prior years, and key performance indicators (e.g. number of passengers, route profitability) for constancy or achievement of targets.
- Reconcile e-ticketing data from the third-party vendor to the company’s recorded revenue and bank receipts.
- Inspect a sample of daily revenue summaries from both cash and electronic sources and agree them to bank deposits.
- Observe physical controls over fare collection and ticket issuance, especially for cash payments to confirm whether designed controls are working effectively.
- Review contracts with the third-party e-ticketing provider, focusing on how commissions, settlements, and data sharing are structured in line with the signed contracts.
- Test journal entries and adjustments to revenue accounts to detect any irregularities or signs of management override.
- Perform cut-off testing around year-end to ensure revenue is recorded in the correct accounting period.
- Evaluate internal control deficiencies related to revenue collection identified during walk-throughs or control testing.
- Given the cash nature of the business and reliance on external systems, the audit team may also consider using Computer-Assisted Audit Techniques (CAATs) to analyze large volumes of ticketing data for trends, duplicates, and anomalies.

SECTION B

QUESTION FOUR

Marking Guide

Qn	Description	Marks	Total Marks
a	Ethical procedures that auditors must carry out before accepting an audit nomination:		
	Award 1 mark for any correctly described procedure. Alternative points offered by candidates are acceptable (1 mark * 4 marks = 4 total marks)	4	4
b (i)	Fraud vs error: Award 2 marks for each correct difference (2 marks * 2 = 4 total marks)	4	4
b (ii)	Auditor's responsibilities in relation to fraud:		
	Auditor's responsibility (award 1 mark for every valid explanation (1mark * 2= 2 Marks)	2	2
c	FIVE components of internal controls:		
	Good answers must be explained briefly. Outlined answers score 1 mark and 1 mark for explanation.		
	Control Environment	2	
	The Entity's Risk Assessment Process	2	
	The information system relevant to financial reporting	2	
	Control Activities	2	
	Monitoring of controls	2	10
Total Marks			**20**

Model Answers

a) Briefly describe FOUR ethical procedures that auditors must carry out before accepting an audit nomination like SHANANA Ltd's.

The nominee auditors must carry out the following procedures:

- Ensure professionally qualified to act: Consider whether they could be disqualified on legal or ethical grounds
- Ensure existing resources adequate: Consider available time, staff, and technical expertise
- Obtain references: Make independent enquiries if directors are not personally known
- Communicate with previous auditors: Enquire whether there are reasons/circumstances behind the change which the new auditors ought to know, also as a courtesy.

b) With reference to *ISA 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*:

i) Differentiate fraud from error in the context of financial reporting.

Fraud is an 'intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage'.

While

An error is an unintentional misstatement in the financial statements, whether an omission of an amount or a disclosure. It can be a mistake in gathering or processing data for the accounts, an incorrect accounting estimate or a mistake in the application of accounting principles.

The error is easier to detect while fraud is not reason fraud is usually concealed unlike errors.

The error occurs due to mistakes or lack of skills unlike fraud which is committed by skilled personnel.

The key difference is intent: fraud is deliberate; error is unintentional.

ii) Discuss the auditor's responsibilities in relation to fraud.

Auditor's Responsibility: The auditor is responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Key duties include:

- Maintaining professional scepticism
- Performing risk assessment procedures
- Responding appropriately to identified fraud risks
- Communicating fraud findings to those charged with governance

Auditors are not responsible for preventing fraud but must design and perform audit procedures to detect material fraud where possible.

c) Briefly state the FIVE components of internal controls as defined in auditing theory and *ISA 315 (Revised): Identifying and Assessing the Risks of Material Misstatement*.

According to *ISA 315 (Revised)* and internal control theory, the five components of internal control systems are:

i) Control Environment: The foundation for all other controls, it includes the tone at the top, ethical values, and governance structure. At SHANANA Ltd, dominance by the CEO and weak governance weakens this component.

ii) The Entity's Risk Assessment Process: The company's process for identifying and managing risks that may affect financial reporting objectives.

iii) The information system relevant to financial reporting: Systems in place to capture and communicate relevant financial and operational data to appropriate personnel in a timely manner.

iv) Control Activities: Specific policies and procedures designed to ensure management directives are carried out, such as authorizations, reconciliations, and segregation of duties. SHANANA Ltd has weaknesses here, particularly with one person handling accounting and procurement.

v) Monitoring of controls: Ongoing evaluations and separate internal audits (if present) to assess the effectiveness of internal controls. SHANANA Ltd lacks a formal internal audit function, impairing this component.

A deficiency in any of these components increases the risk of material misstatement in the financial statements.

QUESTION FIVE

Marking Guide

Qn	Description	Total Marks
a	FOUR financial statement assertions:	
	Answers must include assertion, explanation and relevant examples from the case study. 0.5 Marks for assertion, 0.5 Marks for discussion and 1 Mark for example.	
	Award 2 marks for any correctly discussed assertion and provided example. Presentation, Accuracy, and Classification are also acceptable (2 marks * 4 marks = 8 total marks)	8
b	TWO methods of selecting items for testing under audit sampling:	
	Since the requirement is to outline, award 1 mark for each correct answer	
	Award 1 mark for each correctly outlined method (1 mark * 2 methods = 2 total marks)	2
c	FOUR key factors an auditor should consider before forming an audit opinion:	
	Alternative valid factors are acceptable	
	Award 2 marks for any correctly discussed factor (2 marks * 4 factors = 8 total marks)	8
d	The auditor's responsibilities with respect to other documents:	
	A brief discussion is sufficient	
	Award 2 marks for any valid discussion	2
Total Marks		**20**

Model Answers

a) With specific examples from the case study, **identify and briefly discuss FOUR financial statement assertions related to account balances and related disclosures at period end.**

Four key assertions relating to account balances and related disclosures include:

- Existence: Assets, liabilities, and equity balances actually exist at the period end. Example: The inventory of Frw 2.2 billion must physically exist as at 31 December 2024.
- Rights and Obligations: The entity holds or controls the rights to assets and owes the obligations reflected in the financial statements. Example: NYWALESS Ltd must have legal title or control over the inventory and receivables reported.
- Completeness: All account balances and disclosures that should have been recorded are included. Example: The entire inventory, including goods in transit or consignment, must be included in the reported total.
- Cut off: all revenue account balances have been included in total revenues (Frw 10.4 billion) relate to the year in question (2024).
- Valuation and Allocation: Assets, liabilities, and equity balances are included at appropriate amounts, and any resulting valuation or allocation adjustments are recorded. Example: Obsolete or damaged inventory should be written down to net realizable value.

b) Outline TWO methods of selecting items for testing under audit sampling, as explained in ISA 500: Audit Evidence.

ISA 500 introduces three methods of selecting items for testing:

- Testing 100% of items in a population: Used when a small number of large-value items or all items are significant (e.g. all journal entries above Frw 1 billion).
- Testing all items with a certain characteristic, as selection is not representative: Based on auditor judgment, such as high-risk or unusual transactions, or those near a reporting threshold.
- Audit sampling: Testing a representative portion of the population.

c) With reference to ISA 700 (Revised): Forming an Opinion and Reporting on Financial Statements, **briefly state FOUR key factors an auditor should consider before forming an audit opinion.**

Before forming an audit opinion under *ISA 700 (Revised): Forming an Opinion and Reporting on Financial Statements*, the auditor must consider the following factors:

- Whether the financial statements are prepared in accordance with the applicable financial reporting framework (e.g. IFRS or local GAAP).
- Whether the financial statements are free from material misstatement, whether due to fraud or error.
- Whether sufficient and appropriate audit evidence has been obtained to support the audit opinion.
- Whether the presentation, structure, and content of the financial statements are fair and transparent, including disclosures.
- Whether the auditor's ethical and quality control obligations have been met, especially independence and professional scepticism.
- Whether uncorrected misstatements are material (ISA 450).
- Whether accounting estimates made by management are reasonable.

d) Briefly discuss the auditor’s responsibilities with respect to other documents that include or accompany the audited financial statements, in line with *ISA 720 (Revised)*.

Under *ISA 720 (Revised): The Auditor’s Responsibilities Relating to Other Information*, the auditor is required to read and consider other information included in documents that contain the audited financial statements and the auditor’s report. This includes:

- CEO messages, promotional brochures, annual reports, or investor summaries.

The auditor’s responsibilities are:

- To identify any material inconsistencies between the audited financial statements and the other information (e.g. exaggerated performance claims in the brochure vs actual results).
- To remain alert for material misstatements of fact, even if unrelated to the financial statements.
- To respond appropriately if inconsistencies or misstatements are found, which may involve requesting corrections, modifying the audit report, or withdrawing from the engagement if unresolved.

Importantly, the auditor does not provide assurance on the other information—they are only required to read it and report if it appears misleading or inconsistent with the audited financials.

QUESTION SIX

Marking Guide

Qn	Description	Marks	Total
a (i)	THREE weaknesses in HAHA Ltd.'s sales internal control system:		
	Answers must clearly identify a specific weakness and indicate its likely implication. If a candidate only identifies a weakness, award 1 mark instead of 2 marks		
	Award 2 marks for any correctly identified and discussed weakness in sales in the case study (2 marks * 3 marks = 6 total marks)	6	6
a (ii)	TWO weaknesses in HAHA Ltd.'s inventory management system:		
	Answers must clearly identify a specific weakness and indicate its likely implication. If a candidate only identifies a weakness, award 1 mark instead of 2 marks		
	Award 2 marks for any correctly identified and discussed weakness in inventory management in the case study (2 marks * 2 marks = 4 total marks)	4	4
b	FOUR duties of the external auditor:		
	Since the requirement is to outline, award 1 mark for each correct answer.		
	Award 1 mark for each correct duty (1 mark * 4 duties = 4 total marks)	4	4
c	THREE types of public sector audits:		
	Answers must be explained to score 2 marks. Award 1 mark for stating and 1 Mark for explanation		
	Financial Audit	2	
	Compliance Audit	2	
	Performance Audit	2	6
Total Marks			**20**

Model Answers

a) With reference to *ISA 315 (Revised): Identifying and Assessing the Risks of Material Misstatement*:

i) Identify and evaluate THREE weaknesses in HAHA Ltd's sales internal control system.

In reviewing HAHA Ltd's sales processes, several risks arise due to how the company operates:

- First, daily sales are manually recorded by cashiers and submitted as handwritten summaries. This increases the risk of recording errors, unintentional omissions, or deliberate manipulation of sales data, especially in the absence of automated systems or electronic point-of-sale (POS) records.
- Second, the lack of reconciliation between sales summaries and actual cash or mobile money deposits creates a significant risk of undetected theft or misappropriation of funds. Without verifying that recorded sales match amounts banked, there is no assurance over the completeness or accuracy of revenue.

- Third, the manual application of discounts by cashiers without supervisory approval may lead to abuse of discount privileges or revenue loss through unauthorized markdowns. This can also distort reported sales performance.
- Fourth, customer complaints regarding loyalty points are not tracked or resolved. This reflects poor oversight of the loyalty program and increases the risk of reputational damage and customer dissatisfaction. It may also indicate a lack of accountability in managing customer rewards.
- Finally, the absence of managerial review of end-of-day sales summaries means errors or irregularities could go undetected. Supervisory oversight is a critical control to ensure completeness, accuracy, and integrity of recorded revenue.

ii) Identify and examine TWO weaknesses in HAHA Ltd's inventory management system.

HAHA Ltd's approach to inventory management exposes the company to several operational and financial risks:

- The company conducts stock counts only once a year, which limits its ability to identify and correct discrepancies on a timely basis. Regular stock counts are necessary to maintain accurate inventory records and detect losses early.
- Storekeepers are allowed to update inventory records without authorisation or independent review. This creates an opportunity for manipulation or errors in inventory data, particularly if linked with theft or unauthorised adjustments.
- There is no procedure in place to segregate or document damaged, expired, or returned goods. As a result, obsolete or unusable inventory may remain in stock records at full value, overstating assets and profits.
- Goods received from suppliers are accepted into inventory without verification against delivery notes. This can lead to incorrect quantities being recorded, undetected short deliveries, or fraudulent receipts.
- Finally, the absence of periodic reconciliation between physical inventory and accounting records increases the likelihood of undetected discrepancies. Without these checks, the reliability of inventory balances in the financial statements is significantly undermined.

b) Outline FOUR duties of the external auditor, in accordance with the Law Governing Companies in Rwanda.

The following are auditor's duties:

- Compliance with legislation: Whether the financial statements have been prepared in accordance with the relevant legislation;
- Truth and fairness of accounts: Whether the statement of financial position shows a true and fair view of the company's affairs at the end of the period and the statement of profit or loss and other comprehensive income (and statement of cash flows) show a true and fair view of the results for that period;
- Adequate accounting records and returns: Whether adequate accounting records have been kept and returns adequate for the audit received from branches not visited by the auditor;

- Agreement of accounts to records: Whether the accounts are in agreement with the accounting records and returns;
- Consistency of other information: Whether the information in the directors' report is consistent with the financial statements;
- Directors' benefits: Whether disclosure of directors' benefits has been made in accordance with the Law Governing Companies.

c) Briefly explain THREE types of public sector audits.

There are three main types of public sector audit, each with a distinct objective:

- Financial Audit: This audit aims to ensure that the financial statements of audited entities present a fair view of their financial activities during the reporting period and their Statement of Financial Position (or balance sheet) at its close;
- Compliance Audit: This audit attempts to validate that transactions have been undertaken in compliance with appropriate legislation and regulation, and
- Performance Audit: This audit looks at Value for Money or the effective, efficient, and economical usage of public resources (this is sometimes called the "3Es" audit).

End of Marking Guide and Model Answers