# CERTIFIED PUBLIC ACCOUNTANT

# ADVANCED LEVEL 1 EXAMINATIONS

# A1.2: AUDIT PRACTICE AND ASSURANCE SERVICES

# DATE: FRIDAY 30, MAY 2025

## INSTRUCTIONS:

1. Time Allowed: **3 hours 45 minutes** (15 minutes reading and 3 hours 30 minutes writing).
2. This examination has **two** sections**: A & B.**
3. Section **A** has **One compulsory question** while section **B** has **Three optional questions** to choose **any two.**
4. In summary, attempt **three** questions.
5. Marks allocated to each question are shown at the end of the question.
6. The question paper should not be taken out of the examination room.

# SECTION A

## QUESTION ONE

Today is 20 November 2023.

You are an audit manager at SK Partners, a local firm of certified public accountants in Rwanda. You are planning the final audit for Rwanda Fresh Drinks Limited (RFD), whose financial year will be ending on 31 December 2023. This is the first time you are assigned to manage the audit of RFD as the manager of the prior year is currently on study leave.

**Background information for RFD**

RFD has been in operation for almost twenty (20) years in Rwanda with factories spread across the country. RFD has in total of six (6) large-sized factories that produce packed fresh juice for sale in and outside Rwanda. At the start of the financial year, RFD had two (2) factories located in Kigali city, while the other four (4) factories were spread across the other four provinces of Rwanda with one (1) factory located in each of the four (4) provinces.

RFD sells the packed juice (as a finished product) only after receiving an order from its customers. RFD's customers include the wholesale customers in Rwanda and exports to designated foreign-based supermarkets in other African countries. Exports on average have consistently accounted for 40% of RFD's sales in the past.

The Government of Rwanda regularly runs scheduled and spontaneous inspections of the production process of the juice to ensure the process and the produced juice complies with the regulations for quality and safety of the produce for human consumption.

As one of the stringent requirements, RFD must clearly label a standard-required expiry date on all the finished products before they are delivered to customers. Most drinks have an expiry period of 12 months. RFD is prohibited by the regulator, from dispatching any finished pack of juice where the expiry date is less than six (6) months on the date of dispatch.

There are serious penalties that can be imposed by the regulators if RFD fails to comply with the national regulations including possible cancellation of the operating license.

**Management accounts extract for RFD**

The engagement partner has shared with you the following extracts of the management accounts which were sent yesterday by the Finance Manager of RFD:

| | **Projected on 31 December 2023** | **Actual on 31 December 2022** |
|---|---|---|
| | **FRW' Billions** | **FRW' Billions** |
| Revenue | 4.350 | 3.120 |
| Profit before tax | 1.248 | 0.846 |
| Closing inventories *(note 1)* | 0.734 | 0.359 |
| Total assets | 7.185 | 7.160 |
| Property, plant & equipment | 5.384 | 5.368 |

Note 1: Closing Inventory - breakdown (for the year ended 31 December 2023)

| | **Projected on 31 December 2023** | **Portion of total inventory** |
|---|---|---|
| | **FRW' Millions** | |
| Packed juice with less than one (1) week to expire | 514 | 70% |
| Work-in-progress: Destroyed juice in Western province | 132 | 18% |
| Other inventories (e.g., WIP inventories produced on customer contract) | 88 | 12% |
| **Total** | **734** | **100%** |

**Future plans of RFD**

In the past, RFD's receipts from its exports have been collected in Rwandan local currency (FRW). From January 2023, due to pressure from the export customers, RFD commenced an arrangement to receive payments from the export sales in the United States Dollars (USD) and this started with a major customer located in South Africa, whose USD receipts have contributed 10% of RFD's total sales in 2023. The other customers of the export sales are positive to this arrangement and plan to start settling their payments to RFD in USD from January 2024. On average, the customers for the export sales settle their payments to RFD within three (3) months from the date goods have been received. There have been various times where the USD has fluctuated significantly against the FRW in 2023.

In order to increase the company's capital base needed to increase RFD's production capacity aimed at increasing export sales to other countries next year, RFD plans to list its ordinary shares on the Rwanda Stock Exchange (RSE). The floatation of the shares is planned for April 2024 supported by the audited financial statements for the year ended 31 December 2023. As a listing requirement, RFD must prove through its financial statements, a better financial performance and a stable financial position.

**A new competitor in Rwanda**

In April 2023, a new competitor company with sufficient cash flows and other resources opened up a large factory in Kicukiro district. The competitor chose to open the factory in Kicukiro district to take advantage of the availability of massive raw materials for juice-processing that are sourced from this region within Kigali city. RFD has two factories in Kigali city with the largest of the two factories located in Kicukiro district.

RFD mainly sources its raw materials from the same small-sized family farmers based in Kicukiro that the new competitor is now using on a contractual arrangement. Though these farmers operate under a farmers' union, RFD does not formally contract with the farmers in a way that would restrict the farmers from selling their produce to the new competitor.

Consequently, from April 2023, RFD struggled to access adequate quantities of the raw materials from the farmers in Kicukiro to help with the planned production that the company requires to meet the contracted customer orders. This has led to RFD's loss of a significant market share in Rwanda to the new competitor who is perceived as more reliable by the customers. Though RFD's going concern is not expected to be threatened by the reporting date, the factory in Kicukiro district is expected to report a significant loss in the year 2023.

**RFD's restructuring program**

Due to reduced production and sales of packed juice in RFD's branch in Kicukiro district (Kigali city), the Board of Directors of RFD have approved a restructuring program in the Board meeting held on 1 November 2023 in which the following resolutions were made:

- 80% of the personnel in the Kicukiro branch will be made redundant on 31 December 2023
- The remaining staff will be trained and relocated to the other branches that RFD will continue to operate. RFD will continue to operate with the other remaining branches which will continue to be spread across all the provinces.
- All property, plant and equipment in the Kicukiro factory will immediately be made available for sale.
- The operations in Kicukiro branch will be discontinued alongside the sale of the property, plant and equipment.

The RFD management announced the restructuring plan through a press conference on 2 November 2023 and later communicated formally the approved restructuring program to the personnel in Kicukiro branch on 10 November 2023. RFD management has a plan to place an advert for the sale of related assets in Rwandan newspapers on 10 January 2024. It is estimated that the sale of the property, plant and equipment and the closure of the branch in Kicukiro will be completed not later than 31 March 2024.

The estimated cost of the restructuring program amounting to FRW 450 Million which has been fully recognized as a provision for a liability under the current liabilities in the financial statements projected for the year ended 31 December 2023 is broken down as follows:

| Description | FRW (Millions) |
|---|---|
| Redundancy costs | 330 |
| Training and relocation costs | 120 |
| **Total cost** | **450** |

Mr. Jean Claude Twahirwa, the Chief Executive Officer of RFD has instructed the procurement staff of RFD to start the disposal process of the property, plant and equipment (PPE) based in the Kicukiro factory. He has indicated to the Procurement and Finance teams that the PPE in Kicukiro is highly demanded by the public and would want RFD to push for a sale at a 'good' price which can ensure a minimum target gain on disposal of FRW 95 Million (targeted disposal proceeds of FRW 375 Million less carrying amount of FRW 280 Million) is achieved. However, an independent valuation report from an expert has reported a market price of similar assets in Kicukiro district to be worth FRW 250 Million.

The CEO has made the following instructions which have been implemented by the finance department of RFD:

i) Classify the assets of Kicukiro as "Held-for-sale assets" at their carrying amount of FRW 280 million and present them within the current assets.
ii) Present the financial results (i.e., the expected financial loss) of the factory in Kicukiro in the profit or loss separated in the discontinued operations.

**Floods in the Western Province**

In May 2023, there were heavy floods in the Western province, which damaged RFD's factory building, the inventories and other non-current assets in that region. All the inventories in the factory were badly damaged and have no resale value, while a number of the PPE assets were damaged beyond repair. Though RFD operates with other factories in each of the provinces in Rwanda, the destroyed factory and its assets in the Western province is one of the largest factories used by RFD to produce processed juice. The carrying amount of the property, plant and equipment based in the Western province immediately before the floods was FRW 2.812 Billion.

After the floods, the experts on disaster preparedness and the local media blamed RFD for failure to foresee and prepare well for the likely disaster in the Western province that resulted into such a significant loss. At the time of the floods, RFD had received several orders from customers for large quantities of packed juice and consequently, these customers have switched to a competitor who is now considered to be more reliable in delivering the required quantities of packed juice.

**Required:**

Using the information provided:

a) **Evaluate the business risks faced by RFD to be considered in planning the final audit of RFD.** (14 Marks)

b) **Evaluate the risks of material misstatements to be considered in planning the final audit of RFD for the year ending 31 December 2023.** (26 Marks)
*Note: Other than the disclosures for any event after the reporting date, you are NOT required to evaluate the accounting treatment for the other disclosures in the notes to the financial statements as these will be dealt with later.*

c) **Recommend the principal audit procedures to be performed on the restructuring provision related to the closure of the branch in Kicukiro district.** (5 Marks)

d) This morning, you met with the Engagement Partner to discuss potential audit approaches that can be applied in the audit of RFD's financial statements for the year ended 31 December 2023. In the discussion, the Engagement Partner mentioned the possibility of applying the balance-sheet audit approach on the audit of RFD as this is a client the firm has audited for a number of years now. The Engagement Partner indicated that the balance-sheet approach may be a cost-saving approach and time-saving for both the audit firm and the client.

**Required:**

In light of the discussion from the meeting with the Engagement Partner, **briefly discuss how the balance-sheet approach to an audit would apply to the audit of RFD and whether this would be an appropriate audit approach in isolation to conduct an audit for RFD for the financial year ending 31 December 2023.** (5 Marks)

**(Total: 50 Marks)**

# SECTION B

**QUESTION TWO**

You are an Audit Manager in TAKA Associates, a local audit firm based in Rwanda and you are responsible for the audit of Mansion Paints Rwanda Ltd (MPRL), a listed company that manufactures paints and vanishes products with its headquarters situated in Gahanga industrial park in Kicukiro. MPRL distributes its products through a chain of 50 hardware stores spread across Rwanda which are authorized to sell products carrying MPRL's brand name.

MPRL is a new audit client of your audit firm after an engagement was signed on 1 May 2023. Your firm replaced Elias & Valens Partners (previous auditors), whose audit term had successfully ended.

The draft financial statements of MPRL for the year ended 30 June 2023 show profit before tax of FRW 7.9 Billion (30 June 2022 – FRW 6.72 Billion) and total assets of FRW 55.2 Billion (30 June 2022 – FRW 38.1 Billion).

**Required:**

a) **Discuss the THREE (3) auditors' responsibilities for corresponding figures and how the auditor should discharge this responsibility specifically in an audit engagement for MPRL.** (6 Marks)

b) The audit team has returned from the audit fieldwork at MPRL and has brought the following outstanding issues to your attention:

i) MPRL owns seven brand names of paints used in the construction sector where three of the seven brands were purchased and the remaining four brands of paint were self-developed. The cost of the purchased brands is recognized as an intangible asset, while the cost of generating self-developed brands and maintaining existing ones are recognized as an expense when incurred.

"Wall-master paint" is one of the purchased brands recognized as an intangible asset at its cost of FRW 4.8 Billion and amortized on a straight-line basis over 10 years. The demand for products of one of the purchased brands of Wall master paints fell significantly in July 2023 after publicity adverts were developed by a local media house on contract that ran in June 2023, offended the customers.

ii) In the past, MPRL had always presented its statement of cashflows with the "net cash flows from operating activities" presented using the "indirect method". MPRL has changed to a presentation of the statement of cash flows using the "direct method". In presenting the "net cash flows from operating activities" for the year ended 30 September 2023, and the corresponding figures have been restated for the prior year ended 30 September 2022.

**Required:**

For each of the above outstanding issues, **comment on the matters you should consider and explain the audit evidence you should expect to find when reviewing the audit working papers and the financial statements of MPRL for the year ended 30 September 2023.**

(19 Marks)

**(Total: 25 Marks)**

*Hint: 12 marks are allocated to issue i) and 7 marks are allocated to issue ii)*

## QUESTION THREE

You are a manager in Smith & Peters Associates, an international audit firm that provides audit and non-audit engagements. You work in the department that provides non-audit engagements including forensic investigations and reviews of performance measurements reports. Your firm has received a request from Kite Bakers Limited (KBL), regarding an inventory fraud from the Chief Internal Auditor. KBL is not an audit client of Smith & Peters Associates.

**Background information**

KBL is a large company famously known in Rwanda for producing and selling high-quality bakery products such as bread, cakes, doughnuts and snacks that are sold to the general public. KBL operates with a large factory situated near the border of one of the neighboring countries to Rwanda strategically to source some of the main ingredients such as sorghum, maize and millet which are largely grown in the neighboring country. These ingredients are used as the main raw materials in the production of the KBL's products and are procured in large quantities at a low cost from suppliers in the neighboring country.

The Chief Internal Auditor has approached your firm with a request to conduct a forensic investigation to quantify continued losses suffered as a result of a fraud taking place in the supply process of the raw materials from the suppliers in the neighboring country and to provide recommendations in the company's controls to avoid a repeat of the fraud in the future. In addition, the Chief Internal Auditor has informed you that an insurance claim has been made by KBL in compensation of the losses suffered and the matter has been reported to the police to investigate the matter further.

**Specific allegations from the whistle-blower**

On acceptance of your firm to take on the fraud investigation engagement, the Chief Internal Auditor has shared the recent internal audit reporting in which an extract of the allegations received from the whistle-blower were reported as below:

"The Store Officer has been working with the Procurement Officer (who keeps a direct contact with suppliers of the raw materials) to raise fictitious purchase orders in the purchase system and these are manipulated to be purchases of "small" individual purchases structured intentionally below the threshold that requires the approval of the managers for the departments of stores and procurement and the company's procurement committee.

In the fraud scheme, the Stores Officer (without the authorization of the store's manager) initially raises a purchase request as an emergency request for any small quantities of raw materials that are assessed to be running out of stock in the stores at the start of a large production activity. The purchase request is instantly passed on to the Procurement Officer who immediately raises a purchase order which does not have to be authorized by the Procurement Manager and KBL's procurement committee. This is based on the fact these are tagged "emergency procurements" that cannot be delayed to disrupt the large production process. On average, it takes five (5) days from the start to completion for KBL to run a large production and this process cannot be stopped due to lack of the raw materials. KBL has a policy to allow for emergency procurements to be initiated and completed by the Procurement Officer without complying to the normal structured procurement procedures. The Procurement Officer has used the excuse of 'emergency purchase requests' to process direct purchase orders to the suppliers and instantly register the purchase orders in the procurement system that is linked to the payment system in the accounts department. It is alleged that the Stores Officer and the Procurement Officer alert the 'friendly suppliers' about the fraud scheme immediately on raising the purchase order, allowing the suppliers to go ahead and raise fictitious delivery notes with consistent information as the purchase orders without making actual deliveries. At the same time, the Store Manager also raises fictitious good received notes and instant fictitious store dispatch notes for these raw materials to the production department. During the actual production, the production team is not required to maintain documentation for the detailed information of the raw materials they use in the production of the bakery products and therefore, the only information available for materials used in the production process will be the stores dispatch notes. For emergency procurements, the accounts department processes payments directly to the suppliers within 2-3 days of the goods received note and this is based on the documentation mentioned above. On receipt of the payments, the suppliers share the received monies with the Procurement Officer and the Store Officer"

The Chief Internal Auditor has informed you that the Store Manager is the sole person required to raise and authorize the goods dispatch notes in emergency cases where the production team is running out of raw materials during the productions. In addition, the stores department, the procurement department and the accounts department are not integrated with KBL's the Management Information System (MIS).

**Required:**

a) Using the information provided**, write a report to the partner in charge of the non-audit services in which you evaluate FIVE (5) matters that you should consider before your firm accepts the invitation to perform a forensic investigation for KBL.** (10 Marks)

b) Assuming the engagement is accepted by your firm:

i) **Evaluate how any THREE (3) deficiencies in control systems of KBL have contributed to the fraud** (6 Marks)

ii) **Discuss THREE (3) recommendations that KBL should implement to prevent the reoccurrence of the same fraud in future.** (3 Marks)

c) In a separate engagement, your department at Smith & Peters Associates has received a request to conduct a review of the performance measurement report of Kigali Vocational Training Center (KVTC), a small-sized tertiary institute based in Kigali.

KVTC was established 5 years ago as a profit-making public sector tertiary institute specializing in vocational courses that lead to the award of diplomas. In addition to part-funding of KVTC's operational costs, the Government of Rwanda is the majority shareholder with 75% shares in KVTC, while the remaining shares are held by other private investors (including individuals and companies). The institute currently has approximately 1,500 students. At the end of the 2-year course, a successful student graduates with a diploma. A student pursuing the diploma course pays a subsidized fee of FRW 1.2 Million for the entire 2-year course. There is a 5-year plan to open up four (4) other KVTC campuses in the remaining provinces of Rwanda.

KVTC's academic year ends on 30 September. It is a requirement of the Government of Rwanda for KVTC to present a separate annual performance measurement report to the line Government Ministry together with the audited financial statements within three months of the end of the institute's academic year. The performance measurement report contains non-financial measures.

It is the first time the Government of Rwanda has engaged your firm to provide an independent review report on the KVTC's performance measurement report, and this assignment has been allocated to your department.

Details on some of the information presented in KVTC's performance measurement report are given below:

| **Performance category** | **Performance measurement indicator** |
|---|---|
| Graduation rate | % of students who complete their course |
| Academic performance | % of students achieving a distinction ("First class pass") |
| Employability | % of students who upon their graduation obtain employment |
| Course satisfaction | % of students who rate their KVTC study experience as "excellent" or "very good" |

**Required:**

**Discuss the relevance and measurability of the information in KVTC's reported performance measurement report.** (6 Marks)

**(Total: 25 Marks)**

## QUESTION FOUR

a) DURABLE Supply Ltd is a company specializing in manufacturing and supplying home furniture in Rwanda. The company is facing revenues decline over the past two years due to Government enforcement on environmental protection in the country. The company is looking at increasing its revenues by exporting raw materials from neighboring countries and more investments in marketing.

In addition, KAKU & Associates, the current audit firm has an ongoing negotiation with the Managing Director on how they can minimize audit costs by reducing the audit time spent on the client, hoping that this will reduce the overall company's expenses, among others.

The Board of Directors proposed that this year's audit fee should be based on a percentage of company's profit after tax instead of reducing the audit time. KAKU & Associates supported this option as they believe it will increase the overall audit fees. The audit partner of KAKU & Associates accepted not to contact the previous auditors for more clarification as required, if their remuneration basis is confirmed to be based on the company's profit.

Due to the audit's busy schedule including declaration deadlines and submission of annual financial statements in March every year, KAKU & Associates will sub-contract a Tax Advisor who is a brother of the Partner to carry out the audit of DURABLE Supply Ltd.

**Required:**

**Describe the steps that KAKU & Associates should undertake prior to accepting the audit engagement of DURABLE Supply Ltd**. (7 Marks)

b) You are the Audit Manager of Robert & Associates Ltd. Karekezi and sons Company is your new client and you are planning the audit of Karekezi and Sons Company, which has been an audit client for the past five years specializing in manufacturing kitchen equipment. During the planning stage of the audit, you have obtained the following information:

- The employees of Karekezi and Sons Ltd are entitled to purchase kitchen equipment at a discount of 20%.
- The audit team has in previous years, been offered the same level of staff discount.
- During the year, the Director of Finance of Karekezi and Sons Company was ill and hence unable to work. The company had no spare staff to fulfil the role and hence a qualified audit team member of Robert & Associates Ltd was seconded to the client for three months. The audit partner recommended that the audit team member who acted in the Director of Finance role be included on the audit team as he has good knowledge of the client.
- The fee income derived from Karekezi and Sons Company was boosted by this engagement and along with the audit and tax fee, now accounts for 24% of the firm's total fees.
- From a review of the correspondence files, you note that the partner and the finance director have known each other socially for many years and in fact, went on holiday together last

summer with their families. As a result of this friendship, the partner has not yet spoken to the client about the fee for last year's audit, 30% of which is still outstanding.

- The wife of the Audit Partner was a senior accountant in Karekezi and Sons Company during the audit period.

**Required:**

**i)** **Discuss the ethical threats which may affect the independence of Robert & Associates Ltd and describe the steps Robert & Associates Ltd should have taken before accepting any new audit engagement**. (5 Marks)

**ii)** During the audit opening meeting of Karekezi and Sons Company, the Director of Finance revealed that one of their Recovery Officers committed a fraud estimated at FRW 16 million. **Describe the risk assessment procedures to be performed by Robert & Associates Ltd concerning the fraud that took place in the company**. (8 Marks)

**iii)** **Briefly discuss possible professional liabilities for Robert & Associates Ltd.** (5 Marks)

**(Total: 25 Marks)**

## End of Question Paper