



**CERTIFIED PUBLIC ACCOUNTANT
INTERMEDIATE LEVEL EXAMINATIONS
I1.4: AUDITING
DATE: FRIDAY 30, MAY 2025
MARKING GUIDEN AND MODEL ANSWERS**

SECTION A

QUESTION ONE

Marking Guide:

QN	Description	Marks	Total Marks
a	Award 2 marks for any one valid key area correctly described by candidates. If the answer is only listed, award 1 mark per answer 5 points * 2 marks each = 10 total marks Consider other valid answers not in the model answer	10	10
b	Award 2 marks for any one valid response correctly discussed by candidates If the answer is only listed, award 1 mark per answer 5 points * 2 marks each = 10 total marks Consider other valid answers not in the model answer	10	10
Total Marks			20

Model Answer:

a) Describe FIVE key areas auditors should consider when obtaining an understanding of LANDO Ltd's business environment and internal controls.

Key areas to be considered by the auditors include:

- The nature of LANDO Ltd's operations, including revenue streams from direct sales and government contracts.
- The regulatory environment, including compliance with Rwanda Revenue Authority tax laws and Rwanda Standards Board quality regulations.
- The company's financial performance, market conditions, and economic factors affecting the manufacturing sector.
- Internal control processes over inventory management and procurement, given that raw materials are sourced from both local and international suppliers.
- The impact of technology and automation on LANDO Ltd's financial reporting processes.
- Selection and application of accounting policies applied by LANDO Ltd.

b) Discuss FIVE ways in which auditors should respond to the risks of material misstatement identified in LANDO Ltd's inventory valuation process.

The following are recommended responses:

- **Inventory Valuation Risks:** The auditors should perform detailed substantive procedures on inventory valuation, including sample physical verification and testing of cost allocation methods to ensure compliance with IAS 2 (Inventories).
- **Revenue Recognition Risks:** Given the delayed payments from government clients, the auditors should assess whether revenue recognition policies comply with IFRS 15 (Revenue from Contracts with Customers) and review any associated impairment provisions.
- **ERP System Implementation Risks:** The auditors should evaluate controls over financial data migration, perform IT system walkthroughs, and test automated processes for potential errors.
- **Fraud Risk Related to Procurement:** The auditors should review procurement transactions, verify supplier authenticity, and examine large or unusual expenditures for any signs of irregularities.
- **Cash Flow and Going Concern Assessment:** The auditors will analyze LANDO Ltd's cash flow projections, assess the sufficiency of working capital, and evaluate whether there are any indicators of going concern issues.
- **Compliance with Tax and Regulatory Requirements:** The auditors will review LANDO Ltd's tax filings, assess compliance with local tax laws, and verify whether any contingent liabilities exist related to tax disputes.

QUESTION TWO

Marking Guide:

QN	Description	Marks	Total Marks
a	Award 2 marks for any one test of control correctly explained with it's importance by candidates If the answer is only listed, award 0.5 marks per answer 5 points * 2 marks each = 10 total marks Consider other valid answers not in the model answer	10	10
b	Award 2 marks for any one valid audit procedures correctly discussed by candidates If the answer is only listed, award 1 mark per answer 5 points * 2 marks each = 10 total marks Consider other valid answers not in the model answer	10	10
Total Marks			20

Model Answer:

a) Explain FIVE tests of controls that auditors should test when assessing JANJA Ltd's payroll system, and why are these controls important.

Auditors should test the following controls:

- Authorization and Approval: Auditors should verify that payroll payments are properly authorized by management to prevent unauthorized salary adjustments.
- Segregation of Duties: Ensuring that different individuals handle payroll processing, approval, and payment disbursement to reduce fraud risks.
- Employee Existence Verification: Conducting random checks to confirm that employees on the payroll are actual current employees and not ghost workers.
- Automated Payroll System Controls: Reviewing access logs and system settings to ensure only authorized personnel can make changes.
- Reconciliation Procedures: Checking that payroll records match bank statements to detect errors or fraudulent payments.

b) Discuss FIVE audit procedures that should be performed to verify the accuracy and valuation of tangible non-current assets in JANJA Ltd's financial statements.

The following audit procedures should be performed:

- Physical Verification or inspection: Conducting on-site inspections to confirm asset existence and condition.
- Depreciation and Valuation Review: Assessing whether depreciation is calculated correctly and applied consistently.
- Ownership or Rights Verification: Checking purchase invoices, title deeds, and registration documents to confirm legal ownership.
- Impairment Assessment: Identifying any assets that may have lost value due to damage or obsolescence.
- Reconciliation with Fixed Asset Register: Comparing recorded values in financial statements with the fixed asset register to identify discrepancies.

QUESTION THREE

Marking Guide:

QN	Description	Marks	Total Marks
a	Award 2 marks for any one audit procedure correctly explained by candidates. If the answer is only listed, award 1 mark per answer 4 points * 2 marks each = 8 total marks Consider other valid answers not in the model answer	8	8
b	Award 2 marks for any one valid factor correctly discussed by candidates. If the answer is only listed, award 1 mark per answer 4 points * 2 marks each = 8 total marks Consider other valid answers not in the model answer	8	8
c	Award 1 mark for a correct identification of each type of CAAT (i.e audit software and test data) Award 1 mark for a correct corresponding definition for each type Consider alternative valid definitions	4	4
Total Marks			20

Model Answer:

a) Discuss FOUR audit procedures auditors should perform to assess the reliability of KARANGAZI Ltd's opening balances, considering the prior year's qualified opinion.

The following are some of the audit procedures auditors may consider:

- Auditors should review the prior year's audit report to understand the nature of the qualified opinion.
- Auditors should evaluate management's adjustments or corrections made to opening balances.
- They should perform substantive audit procedures, such as recalculating inventory valuation and confirming trade receivables with customers.
- Auditors should also compare opening balances with closing balances from the previous period to identify inconsistencies.
- They should also assess whether any material misstatements from prior years continue to impact the current financial statements.

b) Briefly describe FOUR factors auditor should consider when relying on the work of an independent livestock valuation expert in auditing KARANGAZI Ltd's biological assets.

ISA 620 requires the auditor to evaluate whether the auditor's expert has the necessary competence, capabilities and objectivity. The auditor should consider the following factors:

- Auditors should consider evaluating the expert's qualifications, competence, and experience in livestock valuation.
- Auditors should also consider assessing the objectivity and independence of the expert to avoid bias.
- They should consider reviewing the methodology used for valuation and ensuring it aligns with applicable accounting standards.
- Auditors should also consider comparing the expert's valuation results with industry benchmarks or historical trends.
- They should consider determining whether sufficient and appropriate audit evidence is provided to support the valuation conclusions.

c)Identify and define TWO common types of Computer-Assisted Audit Techniques (CAATs). Now share answers separately.

There are two particularly common types of CAAT, **audit software** and **test data**.

Audit software consists of computer programs used by the auditors, as part of their auditing procedures, to process data of audit significance from the entity's accounting system. It may consist of generalised audit software or custom audit software. Audit software is used for substantive procedures.

Test data techniques are used in conducting audit procedures by entering data (eg a sample of transactions) into an entity's computer system, and comparing the results obtained with pre-determined results. Test data is used for tests of controls.

SECTION B

QUESTION FOUR

Marking Guide:

QN	Description	Marks	Total Marks
a	Appointment of auditors:		
	Award 1 mark if appointment by shareholders by ordinary resolution was mentioned in the answer	1	
	Award 1 mark if appointment by Board of Directors for the first auditors was mentioned in the answer	1	
	Award 1 mark if Registrar General requirement to appoint auditors in 30 days was mentioned in the answer	1	
	Award 1 mark if salary or audit fee determined by shareholders or the Board of Directors was mentioned in the answer	1	4
b	Award 2 marks for any one valid auditor right correctly discussed by candidates If the answer is only listed, award 1 mark per answer 3 points * 2 marks each = 6 total marks Consider other valid answers not in the model answer	6	6
c	Award 1 mark for any one valid factor/matter correctly stated by candidates No requirement to discuss but no penalty to 4 points * 1 mark each = 4 total marks Consider other valid answers not in the model answer	4	4
d	Award 1 mark for any one valid circumstance correctly described by candidates 4 points * 1 mark each = 4 total marks Consider other valid answers not in the model answer	4	
	Award 1 mark for a correct audit opinion (i.e. qualified opinion). However, adverse audit opinion is also acceptable in this case	1	
	Award 1 mark for a valid justification for the audit opinion answered above	1	6
Total Marks			20

Model Answer:

a) Advise the board members on how auditors are appointed in accordance with the current Law Governing Companies in Rwanda.

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.

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

b) Discuss THREE rights auditors must have to enable them to carry out their duties effectively.

The auditors must have certain rights to enable them to carry out their duties effectively:

- Access to records: A right of access at all times to the books, accounts and vouchers of the company (in whatever form they are held);
- Information and explanations: A right to require from the company's officers such information and explanations as they think necessary for the performance of their duties as auditors;
- Attendance at/notices of general meetings: A right to attend any general meetings of the company and to receive all notices of and other communications relating to such meetings which any member of the company is entitled to receive;
- Right to be heard at general meetings: A right to be heard at general meetings which they attend on any part of the business that concerns them as auditors;
- Right to an appropriate audit fee: Once they have performed their work in accordance with the engagement letter, auditors are entitled to an appropriate audit fee;
- Rights in relation to written resolutions: A right to receive a copy of any written resolution proposed.

c) State FOUR factors auditor consider in determining what to include in the Key Audit Matters (KAMs) section of their report.

Matters/factors which the auditor may determine to be KAMs include:

- Areas of higher risk of material misstatement, or 'significant risks' identified in line with ISA 315 (e.g. at the planning stage)

- Significant judgements in relation to areas where management made judgements
- The effect of significant events or transactions
- The nature of the underlying accounting policy relating to the matter or the complexity or subjectivity involved
- Any misstatements related to the matter
- The nature and extent of audit effort needed to address the matter
- The nature and severity of difficulties in applying audit procedures, obtaining evidence or forming conclusions, including more subjective judgements
- The severity of any control deficiencies
- Whether several separate issues interacted, eg if a long-term contract had repercussions in several areas (revenue recognition, litigation or contingencies)
- The importance of the matter to intended users' understanding, including materiality

d) Describe THREE circumstances that give rise to a modified audit report, and what audit opinion would you express for BUTARO Ltd's financial statements and why.

The following circumstances would give rise to a modified audit report:

- A modified audit report is issued when financial statements contain material misstatements or when auditors face a limitation in obtaining sufficient audit evidence.
- If the auditor identifies errors in the financial statements that are not corrected by management, and these errors are material, a modified opinion is necessary.
- Disagreements with management regarding the application of accounting principles or the materiality of misstatements can also lead to a modified opinion.
- If the financial statements lack necessary disclosures or if the disclosures are misleading, a modified opinion may be required.
- When management restricts the auditor's ability to perform necessary audit procedures, such as preventing access to documentation or refusing to allow observation of inventory, the auditor may be unable to obtain sufficient evidence and must issue a modified opinion.
- If there are significant undisclosed uncertainties related to the financial statements, such as the going concern of the entity, the auditor may need to modify their opinion to highlight these uncertainties.

Audit opinion for BUTARO Ltd's financial statements:

- In the case of BUTARO Ltd, the auditors would likely issue a qualified opinion due to material misstatements in inventory valuation and supplier payments that management refused to correct.

QUESTION FIVE

Marking Guide:

QN	Description	Marks	Total Marks
a	Award 1 mark for any one valid limitation correctly stated by candidates No requirement to explain but no penalty too 4 points * 1 mark each = 4 total marks Consider other valid answers not in the model answer	4	4
b	Award 2 marks for any one valid fundamental pillar correctly discussed by candidates If the answer is only listed, award 1 mark per answer 4 points * 2 marks each = 8 total marks		
	Accountability	2	
	Transparency	2	
	Responsibility	2	
	Fairness	2	8
c (i)	Award 1 mark for any one valid factor/matter correctly stated by candidates No requirement to discuss but no penalty too 4 points * 1 mark each = 4 total marks Consider other valid answers not in the model answer	4	4
c (ii)	Award 1 mark for any one valid improvement correctly described by candidates 4 points * 1 mark each = 4 total marks	4	4
Total Marks			20

Model Answer:

a) List FOUR limitations of an audit.

The following are some of the limitations of an audit:

- An audit provides reasonable assurance but not absolute certainty due to sampling limitations.
- Auditors rely on management representations, which can be incomplete or biased.
- Certain fraudulent activities may remain undetected, especially in cash-intensive businesses like BANA BANA Ltd.
- External auditors are not responsible for preventing fraud but must assess and respond to risks appropriately.
- Not every item is checked. In fact, only test checks are carried out by auditors. It would be impractical to examine all items within a class of transactions or account balance.

- Evidence gathered is persuasive rather than conclusive. It often indicates what is probable rather than what is certain.
- Auditing is not purely an objective exercise. Judgements have to be made in a number of areas. The view in financial statements is itself based on a combination of fact and judgement.
- The timing of an audit. Significant credit notes after the year-end can alter a true and fair view. Problems arise whether you audit too early or too late.

b) Identify and explain FOUR fundamental pillars of corporate governance.

There are mainly four fundamental pillars of corporate governance which include Accountability, Transparency, Responsibility and Fairness:

- **Accountability:** Accountability embraces ownership of strategy and task required to attain organisational goals. This also means owing reward and risk in clear context of predetermined value proposition. When the idea of accountability is approached with this positive outlook, people will be more open to it to improve their performance. This applies from the staff all the way up to top leadership embracing Risk management within defined formal appetite for risk.
- **Fairness:** Fairness means “equal treatment of all stakeholders”. Establishing effective communication mechanism is important in ensuring just and timely protection of resources.
- **Transparency:** Transparency “means having nothing to hide” that allows its processes and transactions observable to outsiders. It also makes necessary disclosures, informs all stakeholders affected about its decisions and how they are likely to be affected by those decisions. Transparency is a critical component of corporate governance because it ensures that all of entity’s actions can be checked at any given time by an outside observer.
- **Responsibility:** Those charged with governance are given authority to act on behalf of the entity. They should therefore accept full responsibility for the powers that is given to them and the authority that it exercises. Those charged with governance are responsible for overseeing the management of the business, affairs of the company, appointing the chief executive and monitoring the performance of the company. In doing so, it is required to act in the best interests of the entity putting aside their own interests.

c)With respect to internal auditors:

Advise the role played by the internal audit function in strengthening internal controls.

(i) The internal audit plays the following roles in strengthening internal controls:

- Internal audit enhances risk management and control monitoring.
- Internal auditors ensure that the organization is complying with relevant laws, regulations, and internal policies.
- Risk-based auditing ensures internal audit focuses on critical areas of concern.

- They evaluate the efficiency and effectiveness of organizational processes and operations, recommending improvements to enhance performance.
- Internal auditors play a role in preventing and detecting fraud by evaluating internal controls and identifying potential weaknesses.
- They communicate their findings and recommendations to management and the board, providing insights and recommendations for improvement.

(ii) Recommend FOUR improvements that BANA BANA Ltd should establish in its internal audit department.

BANA BANA Ltd should establish the following improvements:

- Internal auditors should report to an independent audit committee rather than management.
- Segregation of duties in key processes like inventory and sales reconciliation is essential.
- The internal audit function should adopt risk-based auditing to focus on high-risk areas.
- Well-documented internal audit reports improve external audit reliance and overall control effectiveness.

QUESTION SIX

Marking Guide:

QN	Description	Marks	Total Marks
a	Award 1 mark for any one valid consideration correctly outlined by candidates 6 points * 1 mark each = 6 total marks Consider other valid answers not in the model answer	6	6
b	Award 1 mark for any one valid objective correctly stated by candidates 4 points * 1 mark each = 4 total marks	4	4
c	Award 1 mark for any one valid responsibility correctly stated by candidates 4 points * 1 mark each = 4 total marks Consider other valid answers not in the model answer	4	4
d	Inherent risk (Award 1 mark for correctly identifying this component of audit risk and an additional 1 mark for a correct definition. Consider alternative valid definitions)	2	6
	Control risk (Award 1 mark for correctly identifying this component of audit risk and an additional 1 mark for a correct definition. Consider alternative valid definitions)	2	
	Detection risk (Award 1 mark for correctly identifying this component of audit risk and an additional 1 mark for a correct definition. Consider alternative valid definitions)	2	

QN	Description	Marks	Total Marks
	Total Marks		20

Model Answer:

a) Outline SIX specific considerations auditors must take into account when auditing a company that receives public sector grants, such as HASHTAG Ltd, in line with ISA 250 and the ISSAI framework.

Public Sector Auditors should:

- Plan each audit with a thorough understanding of the audited business and its environment
- Consult with the public sector bodies regarding their overall audit approach
- Consider timing of the audit and agree the audit timetable for submission of good quality accounts and completion of the audit
- Focus on risk areas of error, fraud, or other irregularities
- Be accessible throughout the year to the public sector bodies that they audit
- Work closely with internal auditors.

b) State FOUR objectives of INTOSAI in promoting good governance.

Objectives of INTOSAI:

- Professional Standards – to establish effective frameworks for the adoption of professional standards that correspond to the demands and expectations of member institutions
- Capacity Building – to focus on institutional capacity-building activities of direct relevance to the majority of INTOSAI's members
- Knowledge Sharing & Knowledge Services – to build on the essential features of openness, sharing and cooperation.
- Model International Organisation – to promote the organization and governance of INTOSAI.

c) In accordance with ISA 200 and ISA 315, state FOUR primary responsibilities of an auditor when assessing HASHTAG Ltd's financial statements.

Auditor's Primary Responsibilities:

- Providing Reasonable Assurance: The auditor assesses whether HASHTAG Ltd's financial statements are free from material misstatements.
- Identifying Risks of Material Misstatement: As per ISA 315, auditors evaluate factors such as fraud risk, weak internal controls, and industry-specific challenges.
- Testing Internal Controls: The audit team examines how well HASHTAG Ltd safeguards financial integrity, particularly regarding cash transactions and grant reporting.
- Reporting Findings: The auditor communicates key risks and recommendations to management and regulatory bodies, ensuring transparency and accountability.

d) Identify and define THREE major components of audit risk.

Audit risk = Inherent risk x control risk x detection risk

Inherent risk is the susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material either individually or when aggregated with other misstatements before consideration of any related internal controls.

Control risk is: The risk that a material misstatement, that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, individually or when aggregated with other misstatements, will not be prevented, or detected and corrected on a timely basis by the entity's internal control.

Detection risk is: The risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

End of Marking Guide and Model Answers