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**CERTIFIED PUBLIC ACCOUNTANT  
INTERMEDIATE LEVEL EXAMINATIONS**

**11.4: AUDITING**

**DATE: FRIDAY 30, MAY 2025**

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**INSTRUCTIONS:**

1. Time Allowed: **3 hours 15 minutes** (15 minutes reading and 3 hours writing)
2. This Examination is divided into **two sections (A & B)**
3. Section A has **Three Compulsory questions** while Section B has **three optional questions** to choose any two.
4. **Five questions** in total are to be attempted
5. The question paper should not be taken out of the examination room.



## **SECTION A**

### **QUESTION ONE**

LANDO Ltd is a medium-sized manufacturing company located in Huye District, Rwanda. The company specializes in the production of agro-processing equipment and has been in operation for over a decade. As part of the annual audit, an external audit firm has been engaged to assess the company's financial statements for the year ended December 31, 2024.

During the planning phase of the audit, the auditors are required to obtain a thorough understanding of LANDO Ltd.'s business environment and internal controls in accordance with ISA 315 (Revised): *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment*.

During preliminary inquiries, the auditors identified that LANDO Ltd recently implemented a new Enterprise Resource Planning (ERP) system, which may pose risks related to financial data migration and accuracy. Furthermore, there were instances of delayed payments from key government clients, potentially affecting cash flow and financial stability.

#### **Required:**

- a) Describe FIVE key areas auditors should consider when obtaining an understanding of LANDO Ltd's business environment and internal controls. (10 Marks)**
  - b) Discuss FIVE ways in which auditors should respond to the risks of material misstatement identified in LANDO Ltd's inventory valuation process. (10 Marks)**
- (Total: 20 Marks)**

### **QUESTION TWO**

JANJA Ltd is a large-scale agricultural processing company located in Nyanza District, Rwanda. The company specializes in processing and exporting coffee and tea to international markets. Due to its extensive operations, JANJA Ltd employs over 500 workers, and its financial statements for the year ended 31 December 2024, are subject to external audit.

Recently, the company implemented a new automated payroll system to manage salary payments. However, there have been complaints from employees about salary discrepancies, unauthorized deductions, and delayed payments. Additionally, an internal review identified that some former employees were still appearing on the payroll. Management has assured auditors that adequate internal controls are in place, but concerns remain about their effectiveness.

JANJA Ltd also undertook a major expansion project in 2023, acquiring new processing machines and transport vehicles. Some of these assets were procured from international suppliers, while others were purchased locally. The company has reported a significant increase in the value of its tangible non-current assets. However, during a preliminary audit review, discrepancies were noted between the fixed asset register and the financial statements. Some assets appeared to be underutilized, and a few were reportedly damaged due to improper handling.

**Required:**

**a) Explain FIVE tests of controls that auditors should test when assessing JANJA Ltd's payroll system, and why these controls are important. (10 Marks)**

**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. (10 Marks)**

**(Total: 20 Marks)**

**QUESTION THREE**

KARANGAZI Ltd is a dairy products company located in Nyagatare District, Rwanda. The company has been in operation for over ten years, specializing in the production and distribution of milk, cheese, and yogurt across the country. In January 2024, KARANGAZI Ltd underwent a change in external auditors, and the newly appointed audit firm is conducting its first audit of the company's financial statements for the year ended 31 December 2024.

As part of the audit planning, the auditors are required to assess the opening balances in accordance with *ISA 510: Initial Audit Engagements – Opening Balances*. The previous auditors had issued a qualified opinion on the financial statements for the year ended 31 December, 2023, citing concerns over inventory valuation and accounts receivable collectability. The new auditors must evaluate whether these opening balances contain any material misstatements that could affect the current financial period. During the preliminary review, the auditors identified discrepancies in the valuation of raw milk inventory and noted inconsistencies in the aging analysis of trade receivables. Some key suppliers and customers have also changed since the last audit, raising additional concerns about the accuracy of opening balances.

KARANGAZI Ltd relies on biological assets, including dairy cattle, to sustain its production. The valuation of these biological assets is complex and requires the expertise of agricultural specialists. In line with *ISA 620: Using the Work of an Auditor's Expert*, the auditors intend to engage an independent livestock valuation expert to determine the fair value of dairy cattle reported in the financial statements. The management of KARANGAZI Ltd has historically relied on in-house estimations, but prior audit findings indicated that these valuations lacked sufficient supporting documentation. The auditors must ensure that the expert's report provides reliable and sufficient audit evidence.

Given the company's extensive operations and the use of an Enterprise Resource Planning (ERP) system for financial reporting, the auditors plan to use Computer-Assisted Audit Techniques (CAATs) in accordance with *ISA 500: Audit Evidence*. These techniques will help analyze large volumes of transaction data.



**Required:**

- 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. (8 Marks)**
  - b) Briefly describe FOUR factors an auditor should consider when relying on the work of an independent livestock valuation expert in auditing KARANGAZI Ltd's biological assets. (8 Marks)**
  - c) Identify and discuss TWO common types of Computer-Assisted Audit Techniques (CAATs). (4 Marks)**
- (Total: 20 Marks)**

## **SECTION B**

### **QUESTION FOUR**

BUTARO Ltd is a construction materials company based in Burera District, Rwanda. The company has been in business for over fifteen years, supplying cement, steel bars, roofing materials, and other essential construction products to the local market. Due to significant expansion in recent years, BUTARO Ltd has experienced increased revenue and a rise in the complexity of its financial reporting.

In early 2024, the company appointed a new external audit firm following the retirement of the previous auditors. The appointment was carried out in accordance with *ISA 210: Agreeing the Terms of Audit Engagements* and the Law Governing Companies in Rwanda. However, some members of the board do not seem to have a solid understanding of how auditors are supposed to be appointed.

During the planning phase of the audit, the auditors reminded management of their duties and rights as per *ISA 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* and *ISA 500: Audit Evidence*.

As part of the audit, the auditors identified significant risks and Key Audit Matters (KAMs) in line with *ISA 701: Communicating Key Audit Matters in the Independent Auditor's Report*.

During the audit, significant misstatements were found in the financial records related to inventory valuation and supplier payments. The auditors found that the financial statements did not fully comply with *ISA 705: Modifications to the Opinion in the Independent Auditor's Report*. Management refused to adjust certain discrepancies, arguing that they were immaterial. As a result, the auditors considered issuing a qualified opinion, highlighting material misstatements that could affect stakeholders' decisions.

#### **Required:**

- a) Advise the board members on how auditors are appointed in accordance with the current Law Governing Companies in Rwanda. (4 Marks)**
- b) Discuss THREE rights auditors must have to enable them to carry out their duties effectively. (6 Marks)**
- c) Enumerate FOUR Factors auditors consider in determining what to include in the Key Audit Matters (KAMs) section of their report. (4 Marks)**
- d) Describe FOUR circumstances that give rise to a modified audit report, and what audit opinion would you express for BUTARO Ltd's financial statements and why. (6 Marks)**

**(Total: 20 Marks)**



## QUESTION FIVE

BANA BANA Ltd is a retail company specializing in electronic devices, operating in downtown Kigali. The company has experienced rapid growth in recent years, expanding its inventory and distribution network. As part of its annual financial statement audit, the company has engaged an external audit firm to assess its financial records and internal control systems.

During the kick off meeting with the auditors of BANA BANA Ltd, the board of directors were surprised to learn that auditing is not perfect and that there are some limitations associated with the auditing exercise.

During the audit, it was observed that BANA BANA Ltd lacked proper governance structures. The board of directors consisted mainly of family members, with no independent non-executive directors. Auditors also noted several governance issues. The auditors emphasized the importance of good corporate governance as per *ISA 260 (Revised): Communication with Those Charged with Governance*.

BANA BANA Ltd has an internal audit function; however, the internal auditors report directly to the finance director rather than an independent audit committee. The external auditors found weaknesses in the internal control environment, including: lack of segregation of duties in inventory management and sales reconciliation; inadequate documentation of internal audit findings, and minimal use of risk-based auditing techniques by the internal audit team.

The external auditors highlighted the need for a stronger internal audit function in line with *ISA 610: Using the Work of Internal Auditors* to enhance internal control effectiveness and support external audit procedures.

### Required:

- a) Highlight FOUR limitations of an audit. (4 Marks)
- b) Identify and discuss FOUR fundamental pillars of corporate governance. (8 Marks)
- c) With respect to internal auditors:
  - i) Advise the role of the internal audit function in strengthening internal controls. (4 Marks)
  - ii) Recommend FOUR improvements that BANA BANA Ltd should establish in its internal audit department. (4 Marks)

(Total: 20 Marks)

## QUESTION SIX

HASHTAG Ltd is a tourism services company based in Kigali, Rwanda. The company provides guided tours, hotel bookings, and transportation services to both local and international tourists. Due to government incentives to boost the tourism industry, HASHTAG Ltd has received several public sector grants and tax benefits. As part of its annual audit, the company has engaged an external audit firm to assess its financial records, compliance with government regulations, and risk management strategies.

HASHTAG Ltd receives public funds through tourism development grants. The auditors must ensure compliance with *ISA 250: Consideration of Laws and Regulations in an Audit of Financial Statements* and the *International Standards of Supreme Audit Institutions (ISSAI) framework*. Public sector auditors are accountable for their performance and are duty bound to undertake their work in a professional, objective and cost-effective manner and with due regard to the needs of the organizations they audit.

Given HASHTAG Ltd's involvement with public funds, the audit is conducted following INTOSAI principles. INTOSAI provides guidelines for transparency and accountability in public sector auditing.

The auditors are responsible for providing reasonable assurance that HASHTAG Ltd's financial statements are free from material misstatements. In line with *ISA 200: Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* and *ISA 315: Identifying and Assessing the Risks of Material Misstatement*.

HASHTAG Ltd faces various audit risks, including high risk of revenue misstatement due to fluctuating tourism demand and weak oversight in cash handling processes increases fraud potential. According to *ISA 330: The Auditor's Responses to Assessed Risks*, the auditors understand that they must implement substantive testing on grant expenditures and perform analytical procedures on revenue trends.

### Required:

- 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. (6 Marks)
  - b) Highlight FOUR objectives of INTOSAI in promoting good governance. (4 Marks)
  - c) In accordance with ISA 200 and ISA 315, Enumerate FOUR primary responsibilities of an auditor when assessing HASHTAG Ltd's financial statements. (4 Marks)
  - d) Identify and discuss THREE major components of audit risk. (6 Marks)
- (Total: 20 Marks)

End of question paper



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