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# CERTIFIED PUBLIC ACCOUNTANT

## ADVANCED LEVEL 1 EXAMINATIONS

## A1.2 AUDIT PRACTICE AND ASSURANCE SERVICES

## DATE: FRIDAY 28, AUGUST 2026

## INSTRUCTION

1. Time allowed: **3 hours and 45 minutes** (15 minutes reading and 3 hours 30 minutes writing)
2. This exam 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 a question
6. Show all your workings.

## SECTION A

### QUESTION ONE

You are the Audit Manager at JN Partners Ltd, a firm of Certified Public Accountants practicing accounting profession in Rwanda under the license from the Institute of Certified Public Accountants of Rwanda (ICPAR). TURA HEZA Ltd (THL) is a manufacturing company specialized in the manufacture of Roof Sheets with a manufacturing plant located in Nyaruguru district. The manufactured roof sheets are sold to retailers across all districts in Rwanda.

In the Annual General Meeting of 25 September 2024, JN Partners Ltd was appointed as the company's external auditor and it was the first year JN Partners Ltd was going to audit the financial statements of THL. The company had been audited for a number of years by another firm which ended the term of office in September 2023 and voluntarily resigned. JN Partners Ltd has completed the client acceptance procedures and concluded that all conditions for engagement acceptance were fulfilled to be appointed as the THL's external auditor for the year ended 31 December 2025.

In the last year, the company has expanded into the manufacture of high standard Reinforcement Steel Bars of which the big market is found in Kigali City due to an increase in households aiming to own quality roofs.

Due to a long tendering process to replace the outgoing auditor, THL's financial statements for the year ended 31 December 2024 were not subjected to an external audit, and were only reviewed by the company's internal audit function.

The following financial information was extracted from the company's financial statements for year ended 31 December 2025:

**Extract Statement of Financial Position as at 31 December 2025.**

| Details | 31 December 2025 | 31 December 2024 |
|---|---|---|
| | FRW "000" | FRW "000" |
| Property, Plant, and Equipment (PPE) | 120,000,000 | 92,000,000 |
| Inventories of Raw materials | 30,000,000 | 24,000,000 |
| Inventories of roof sheets undergoing production process | 28,000,000 | 26,500,000 |
| Inventories of Finished roof sheets | 12,600,000 | 11,400,000 |
| Accounts receivable | 800,000 | 780,000 |
| Accounts payable | 80,000,00 | 40,000,000 |
| Loans and Borrowings | 90,000,000 | 50,000,000 |

**Extract Statement of Profit or Loss and Other Comprehensive Income**

| Details | 31 December 2025 | 31 December 2024 |
|---|---|---|
| | FRW "000" | FRW "000" |
| Total Revenue | 45,200,000 | 38,500,000 |
| Cost of Sales | (36,000,000) | (26,900,000) |
| Operating Expense | (1,220,000) | (1,600,000) |
| Finance Cost | (600,000) | (380,000) |
| **Profit Before Tax** | **7,380,000** | **9,620,000** |

During the planning of the audit of financial statements for the year ended 31 December 2025, the following matters were discussed:

1. Property, Plant, and Equipment: To expand its business, in the month of May 2025, the directors approved the acquisition of new machineries to increase the production capacity to respond to increased demand for roofing materials while diversifying the products being manufactured. Further, major repairs and maintenance works were executed on the existing plant and machineries aimed at increasing the production capacity.

2. Inventories:

- To align its inventory valuation with the requirement of IAS 2-Inventopries, the company's policies require the inventories to be valued at the lower of cost and net realizable value (NRV). However, a review of the minutes of the Board of Directors held in October 2025 revealed that a new competitive material used to make improved quality roofing sheets was introduced to the market which required the company to adopt the material to stay competitive. Further review revealed that the company applied LIFO to value its raw material inventories stating that this method will allow the company to report its inventories using the latest market prices. The reported inventory of raw materials included a significant portion of previously acquired materials and no assessment was performed for its net realizable value.
- In the discussion with the Director of Finance, the audit team was informed that to ensure accurate and fair valuation of the work in progress inventory, the Senior Management advised to report the work in progress (WIP) at the current market price plus 10% to accommodate inflation since the company had a customer who had already placed an order for the batch of roof sheets being produced. Management appreciated this since it improved the current ratio and could motivate the bank to approve the loan meant to fund its expansion.
- During the review of minutes of the Board of Directors, the audit team noted that a new type of roofing sheets was introduced to the market by rivals, and this was admired by the market, causing customers to start shifting to this new type of roofing sheets due to its outstanding quality. After an assessment performed by THL, it was resolved that a significant portion of its stock was obsolete and will be sold at a loss. However, management did not write down the inventories, arguing they will sell them at the current market prices due to their advertisement efforts deployed.

3. Revenue: The company operates a sales software to track sales made during the period in addition to accounting software used to record accounting transactions in the books of

account, of which each is independent of the other. The Director of Finance informed the audit team that due to the efforts deployed in advertisement during the month of November 2024, the sales system indicated that more sales were made close to the year end 31 December 2024, but due to pressure to submit the draft financial statements to the Board, the finance unit did not have enough time to thoroughly reconcile the two systems. The reconciliation was made after submitting draft financial statements and realized some collection being made in the month of January 2025 were not included in the sales ledger account as at 31 December 2024.

4. Going concern assessment: THL was importing raw materials from regional markets. In recent years, the company had applied for a license for importing cheap materials from overseas markets, but the request was rejected due to its repeated noncompliance and failure to fulfill key conditions for the license. A foreign company with a similar business was established in Rwanda and was allowed to source materials from overseas markets at affordable prices as one of the incentives to attract Foreign Direct Investments in Rwanda.

5. Computerized Inventory & Costing System: On 1 February 2025, THL implemented an integrated computerized inventory and costing system to manage its inventories and facilitate reliable costing. This system tracks raw materials, calculates costs, and allocates manufacturing overheads to work-in-progress (WIP). In the month of July 2025, the system crashed for a period of four days, and production output data were recorded on manual spreadsheets and later uploaded into the system once restored.

6. Director's loan: Due to high demand in the market, the company intended to acquire a high-efficiency automated Roll Forming Machine to produce massive quantities and high quality at low cost to satisfy the market, which will enable it to outcompete its rivals. To fund the acquisition and installation of the machine, THL obtained a cheap and unsecured five-year loan of FRW 20 billion from its Co-founder and Managing Director, Duhuzimbaraga Twubake John, and the loan was received into the company bank account on 25 July 2025. The loan was at a fixed interest rate of 8%, which is significantly below the current commercial lending rate of 15%. The loan was approved in the Board meeting of 20 May 2025, but has not yet been formally disclosed in the draft financial statement notes.

7. THL has recently been experiencing trading difficulties, as its major customer who owes 42% has ceased trading in February 2026, and was under liquidation at the time of the audit. It is unlikely that the company will collect dues from the client since there was no credit insurance in relation to credit sales, and the sales manager has recently left the company and has not been replaced yet. Available correspondence with the customer indicated that the company started struggling in December 2025.

8. The monthly cash flow has shown a negative net cash flow for the last six months of the financial year ended 31 December 2025 and consequently, the company has not been complying with payment terms agreed upon with its major suppliers. The negative cashflow is forecasted to continue for the coming financial year.

9. THL carries an outstanding 42 billion long-term bank loan with Capital Trust Bank. A key term of this borrowing stipulates that the company must maintain a debt-to-equity ratio

below 2:4. It was also agreed that THL must consult the bank for any further loans that they may wish to take outside the Capital Trust Bank. Due financial distress associated with operational issues occurred during the year, a loan of taken from Directors was not communicated to the Bank. This gradually increased the debt-to-equity ratio to 3:4. Available correspondence revealed that Capital Trust Bank has requested it's the full repayment of outstanding within 4 months. The directors have decided that in order to conserve cash, no final dividend will be paid in 2026.

10. Management has not included any disclosures regarding going concern matters in the notes to the financial statements. They argue that a verbal agreement is being negotiated with key concerned stakeholders to address any going concern issues they are facing, and that the going concern basis of preparation is completely secure and requires no further disclosure.

11. On 01 January 2026, a catastrophic electrical fire destroyed a major part of THL's raw material inventories. There was no correspondence with the insurance as the management was still unaware of the cause as at the time of the audit. This was neither adjusted in THL's financial statements nor disclosed, since management argues the fire occurred immediately after the year end and still investigating the its cause.

**Required:**

**a) Evaluate the appropriateness of management's accounting treatment of the raw material valuation, WIP valuation, and obsolete inventory issues against the requirements of IAS 2, and explain the risk of material misstatement each creates.** (12 Marks)

**b) Calculate preliminary materiality, justifying your chosen benchmark, and conclude whether any two of the misstatements identified in part (a) are individually material.** (6 Marks)

**c) Design substantive procedures to test the WIP and PPE valuations, and explain how CAATs could confirm the completeness and accuracy of data uploaded after the July 2025 system crash.** (12 Marks)

**d) Critically evaluate the financial indicators of going concern doubt at THL, and describe the procedures the auditor should perform to challenge the feasibility of management's mitigating plans.** (10 Marks)

**e) Discuss the reporting implications of the unwritten-down inventory and the missing going concern disclosure recommend the course of action JN Partners Ltd should take.** (10 Marks)

**(Total: 50 Marks)**

## SECTION B

**QUESTION TWO**

a) As Audit Manager at Expert CPA Ltd, you've been asked by audit client, K&J Transport Ltd to review its interim financial statements for the six months ended 30 June 2026. K&J operates in environmental logistics, hauling domestic waste to national landfills. After a new regulation required more modern waste-disposal facilities nationwide, K&J applied to Hygiene Commercial Bank for a FRW 1 billion loan to buy more trucks and expand capacity to serve this growing market.

In its credit application, K&J Transport Ltd has agreed to secure the loan facility using both its existing fleet and the newly acquired vehicles. As a condition precedent to the advancement of the loan, the lender requires an independent practitioner's assurance report on the company's Property, Plant, and Equipment (PPE), providing a conclusion on the carrying amount of existing transport fleet.

Hygiene Commercial Bank's credit committee has asked K&J Transport Ltd for two things: an independent review of the book value of its property, plant, and equipment, and a prospective financial information (PFI) report. For the PFI report, management needs to provide profit forecasts covering the full year ending December 31, 2027. This forecast should show that the company is financially sound and able to repay the proposed FRW 1 billion commercial loan facility.

**The profit forecasts are presented below:**

| **Details** | **December 2026** | **December 2027** |
|---|---|---|
| | **FRW "000"** | **FRW** |
| Total Revenue | 450,000 | 580,000 |
| Cost of Sales | (380,000) | (420,000) |
| General and Administrative expenses | (50,000) | (64,000) |
| Finance Cost | (12,0000) | (60,000) |
| **Profit before tax** | **8,000** | **36,000** |

In compiling these forecasts, management has established the following key assumptions:

1. 28.9% growth in revenue will be achieved, driven by newly secured commercial waste-collection contracts following the implementation of national environmental regulations.
2. Cost of sales will remain strictly controlled and will not increase proportionally with revenue due to the implementation of automated fuel consumption monitoring systems across the fleet.
3. Fleet maintenance and repair costs will decline significantly because the company plans to employ experienced drivers, which management believes will minimize mechanical breakdown frequencies.
4. K&J Transport Ltd will successfully secure a dominant market share of private waste-collection contracts, despite intense competitive rivalry from existing logistics operators in the industry.

5. The formal public procurement and tendering process for the acquisition of the new modern truck fleet will be finalized and fully operational precisely at the commencement of the 2027 financial year.
6. Borrowing and finance costs will match management's estimates exactly, relying on the extensive historical treasury experience of the company's Finance Manager to mitigate interest rate volatility.

**Required:**

**i) Evaluate the reasonableness of the assumptions used in K&J's 2027 profit forecast showing the relevant calculations where necessary.** (8 Marks)

**ii) Advise Expert CPA Ltd on the matters to consider before accepting the PPE and PFI engagements, and explain how the level of assurance given would differ between the two.** (5 Marks)

b) Delicious Hotel Ltd is a prominent three-star hospitality entity headquartered in the Musanze District. To expand its domestic market footprint, the company operates three distinct regional branches located in the Burera, Gakenke, and Nyagatare Districts. JJ Partners Ltd serves as the group's external audit firm, responsible for auditing both the corporate headquarters and all regional operations. To manage its core revenue streams and streamline cash controls, the hotel utilizes a centralized Revenue Management System (RMS), which automatically bridges booking logs with the financial data recorded in the general ledger to monitor its revenue and to facilitate reconciliation with the revenue collected and reported in the books of account.

During the audit of the branches' financial statements for the year ended 31 December 2025, the engagement team noted that the Nyagatare Branch consistently reported room-night revenue that lagged behind budgeted forecasts by 12% to 18%. This variance occurred despite independent real-time data from the central reservation network indicating that occupancy levels closely matched forecasts. The Nyagatare Branch Manager, Nzibyose Bosco, exercises exclusive, unmonitored control over the front-desk daily cash drawer reconciliations and the handheld Point of Sale (POS) terminals used to process ancillary transactions, including minibar and restaurant sales.

Several long-tenured front-desk staff report that the Branch Manager routinely commands staff to manipulate month-end cash tallies. He also forces them to manually record legitimate guest transactions as complimentary or voided items, completely bypassing the RMS.

Furthermore, a review of internal audit reports revealed the following:

- ✓ Multiple room payments noted in physical guest logbooks were never posted to the RMS.
- ✓ Merchant credit card settlement batches showed significantly lower amounts than the initial card authorizations.
- ✓ The branch's physical cash deposits at the local commercial bank consistently fell short of recorded receipts.

Suspecting systemic revenue skimming, the corporate Finance Manager has requested JJ Partners Ltd to transition from a statutory audit scope and assist the hotel in executing a specialized forensic investigation into the suspected fraud.

Delicious Hotel Ltd is also facing increased pressure from its stakeholder ecosystem to provide transparent, high-quality disclosures regarding its Environmental, Social, and Governance (ESG) performance, with particular emphasis on social sustainability and ecological impact. Concurrently, the RDB has introduced a mandatory reporting framework for the hospitality sector. Under this framework, entities are legally required to integrate within their published annual reports an explicit disclosure of material environmental and social metrics. Furthermore, management must provide a structural analysis demonstrating the strategic methodologies employed to achieve their established non-financial Key Performance Indicators (KPIs).

**Required:**

**i) Assess whether JJ Partners Ltd should accept the Finance Manager's request to investigate the Nyagatare fraud, given its existing role as the group's statutory auditor.** (6 Marks)

**ii)** For three of the anomalies noted at Nyagatare Branch, **design the specific procedures to investigate it, stating the evidence expected and how it corroborates or refutes the allegations against Bosco.** (6 Marks)

**(Total: 25 Marks)**

**QUESTION THREE**

You are an Audit Partner at Smart Audit Partners Ltd. Your firm has been recently appointed to perform an external audit of Smart Vision Distributors Ltd (SVDL). You have assigned an Audit Manager, John, to audit the company's financial statements for the year ended 31 December 2025.

SVDL is a fast-growing wholesaler headquartered in the Nyagatare district that imports and distributes computer electronics and related components. It sources most of its imports from European markets and sells nationally to electronic retailers.

Operating margins are thin, inventory and rebate arrangements are complex, and key customers receive extended credit. The company has a small finance team led by a Finance Manager with limited in-house technical accounting expertise. In recent years, revenue doubled after securing exclusive distribution agreements. This growth increased complexity in inventory valuation, returns/warranty provisions, and supplier rebates.

The company has a bank loan with severe attached covenants which the company is looking for renegotiation. Covenant renegotiation will depend on year-end Earnings Before Interest and Tax (EBIT) and inventory valuation. Smart Auditors Partners Ltd is building its reputation in the electronics sector to secure more clients, and a positive reference from SVDL's Managing Director is strategically valuable. The following matters come to your attention:

1. The assigned audit manager, John, is married to Kelly, SVDL's Finance Manager. Kelly oversees the month-end close, inventory costing, and management accounts that feed into the year-end financial statements. She was also the audit team's main contact person during the audit.

2. SVDL's Managing Director provided the senior audit team with premium electronic headsets and an ongoing 40% purchase discount, presenting these items as a token of appreciation for the team's professional cooperation and conducive working relationship with the company's staff during the ongoing audit.

3. With rapid growth and added assurance procedures, SVDL's total current-year fees, including audit and other related assurance, are projected at 22% of Smart Audit Partners Ltd.'s firmwide fee income, making it the single largest client. A three-year renewal is under discussion, and the Managing Director has signalled sensitivity to any fee increase.

4. SVDL asked Smart Audit Partners Ltd to draft IFRS-compliant financial statements, assist in determining the warranty provision methodology, and advise on revenue recognition for bundled peripherals and firmware-enabled features. Management cites time constraint and unfamiliarity with new guidance, proposing to review and sign off drafts prepared by Smart Audit Partners Ltd.

In the month of May 2026, the audit report was issued for Board approval and the bank extended a substantial short-term facility after reviewing and relying on SVDL's audited financial statements. Two months later, management suspected fraud and commissioned an investigation which uncovered that the Finance Manager was collecting money from clients and delaying its recording in the financial statements, resulting in misappropriation. The investigation further discovered that inventories reported in the financial statements for the year ended 31 December 2025 could not be reconciled to physical existence, since a significant number of electronics were confiscated by the store manager and gifted to his family members and friends. Consequently, the bank later suffered a loss and discovered these issues when SVDL defaulted the loan.

During the final stage of the audit, when the Audit Partner was reviewing both the audit file and report, the following matters came to the Partner's attention:

- The assigned Audit Manager, John, was concurrently managing two other demanding audit engagements that required simultaneous finalization. As a result, he delegated the day-to-day management of SVDL's fieldwork entirely to the team's senior auditor, who lacked adequate experience in auditing complex electronic wholesale entities. Due to tight deadlines and heavy workload pressures, this senior auditor opted not to send external confirmation letters to debtors with material year-end balances.
- SVDL's license revealed that the company should annually prepare and submit to the supervisory authority a summary report indicating the imported electronics during the year and the balance in stock as at the year-end. However, because a junior auditor was assigned

to review legal considerations, the staff did not review the license, and there was no tangible evidence that SVDL had complied with the import regulations.

- Some working papers prepared by the junior auditors containing transactions without tick marks were signed off by both the senior auditor and the audit manager.

**Required**

**a) Evaluate the ethical threats in the scenario, and the safeguards that could address each.** (13 Marks)

**b) Assess the quality control deficiencies revealed during the Partner's final review of the audit file, and the consequences these had for the reliability of the audit opinion issued.** (12 Marks)

**(Total: 25 Marks)**

## QUESTION FOUR

You are the Audit Manager at Solid Trust Associates, a Certified Public Accounting firm newly appointed to audit Muhanga Agro Exports Ltd (MAEL) for its consolidated financial statements for the year ended 31 December 2025.

MAEL is a family-owned agribusiness headquartered in Muhanga district, Rwanda, engaged in flower cultivation (for export to the European cut-flower market), fish farming (aquaculture), and horticultural produce for both local and export markets. Rising demand from European buyers following Rwanda's growing reputation at international flower expos has driven rapid expansion, and two of MAEL's major buyers now require an independently audited set of financial statements as a condition of continuing their supply contracts. A regional development bank financing MAEL's greenhouse expansion has also made an unqualified audit report a condition of continued loan disbursement.

MAEL has two wholly-owned subsidiaries incorporated in Rwanda: Muhanga Greenhouses Ltd (flower cultivation) and Lake Rweru Aquaculture Ltd (fish farming). To access the East African fish export market, MAEL also established a subsidiary in Uganda, Rweru Fish Exports (U) Ltd, whose functional currency is the Ugandan Shilling (UGX) and which prepares its statutory financial statements under Uganda's SME reporting framework. The group's presentation currency is FRW. This is MAEL's first statutory audit.

Operations are highly seasonal (flower harvesting cycles and fish stocking/harvest cycles do not align), and are spread across multiple remote sites, creating challenges over cut-off, segregation of duties, and physical verification of biological assets at year end. MAEL has a small in-house internal audit function that currently reviews greenhouse input controls, harvest weighing and grading, and fish pond stock counts. Due to rising costs and a shortage of specialised aquaculture audit skills internally, management is evaluating outsourcing the internal audit function starting in 2027.

The following figures were extracted from the draft consolidated financial statements as at 31 December 2025:

| Details | 31 Dec 2025 FRW '000 | 31 Dec 2024 FRW '000 |
|---|---|---|
| Biological assets – flowers (growing) | 1,150,000 | 780,000 |
| Biological assets – fish stock | 960,000 | 640,000 |
| Harvested/graded produce inventory | 620,000 | 590,000 |
| Greenhouse equipment (NBV) | 1,480,000 | 1,390,000 |
| Export sales revenue | 4,900,000 | 4,100,000 |
| Government export-promotion grant | 300,000 | 180,000 |

The Ugandan subsidiary requires translation into FRW and alignment to IFRS at consolidation. The Uganda subsidiary will be audited by Kampala Assurance CPAs, an audit firm registered in Uganda, while the two Rwandan subsidiaries are audited directly by Solid Trust Associates as component auditors within the group.

**Required:**

**a) Discuss the specific audit risks arising from MAEL's biological assets, harvested produce inventory, and government grant.** (9 Marks)

**b) Recommend substantive audit procedures that respond to the risks you identified in (a), clearly linking each procedure to the financial statement assertion it addresses.** (6 Marks)

**c) Explain the matters Solid Trust Associates must consider in relation to the work of Kampala Assurance CPAs for the Ugandan subsidiary, and the procedures required to consolidate that subsidiary into MAEL's FRW-denominated group accounts.** (6 Marks)

**d) Advise the engagement partner on how MAEL's planned 2027 outsourcing of its internal audit function affects reliance on internal audit work in the current year's audit, and the implications for audit strategy in the following year.** (4 Marks)

**(Total: 25 Marks)**

## End of question paper

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