CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.2: AUDIT PRACTICE AND ASSURANCE SERVICES

DATE: FRIDAY 28, NOVEMBER 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. Show all your workings where necessary.
7. The question paper should not be taken out of the examination room.

SECTION A

QUESTION ONE

You are an audit manager at Kwizera & Co, a local audit firm in Rwanda and you are currently supervising a couple of audit engagements. Information regarding two of the current audit engagements (all at their planning stage) in which you are the audit manager are given below:

1. The audit of Mugabo Investments

One of your audit clients is Mugabo Investments, which is one of the largest asset management companies in Rwanda. You and the engagement partner have just held a pre-audit meeting with the client in which you have noted the following information.

The financial statements for Mugabo Investments for the year ended 30 June 2023 & 2024 recognise profit before tax and total assets as follows:

Description	2023 (FRW million)	2024 (FRW million)
Profit before tax	9,000	6,000
Total assets	82,000	90,000

The main business of Mugabo Investments is to acquire old buildings from the general public which they renovate and convert into commercial buildings for rental purposes. In the financial statements for the year ended 30 June 2024, a number of such buildings (old and un-renovated) are recognized at a carrying amount of FRW 10,000 million in the statement of financial position. The company conducted an impairment review on these buildings in June 2024 and an impairment loss of FRW 50 million relating to these buildings has been recognized in the financial statements.

During the pre-audit meeting, the Finance Director of Mugabo Investments, Clement Bizimana handed to you a file of documentation that supports the results of the impairment loss review on the buildings. According to Clement, this file includes all information relating to the detailed calculations of impairment loss, the management's assumptions used, and the conclusions made by management on the recognized impairment loss. When handing over the file to you, Clement made the following comment:

"I believe that the audit team will not need any additional evidence other than the information contained in this file. The management assumptions applied in the computation of the impairment loss are straightforward and the auditors should not spend a lot of time reviewing these assumptions and the related calculations in detail. The same assumptions have always been applied in the prior years for which the audit team from your firm have always reviewed. So, in this current audit, management expects the audit to cross-check the audit files of the prior year for any additional evidence needed. The Chief internal auditor of Mugabo investments took enough time to review the impairment loss calculations and it was based on the chief internal auditor's assurance report that the Board approved the impairment loss figure."

Clement has also informed you that the company's senior marketing officer is suspected of paying bribes in order to secure lucrative customer contracts. The chief internal auditor was alerted to this potential fraud when auditing cash payments, where he found significant cash payments made by the senior marketing officer to several new customers prior to contracts being signed. Clement has asked if Kwizera & Co can perform a forensic investigation into the alleged fraud committed by the senior marketing officer, but he is unsure of the main contents of a forensic investigation report.

Required:

a) In terms of the planning for the final audit of Mugabo Investments' financial statements for the year ended 30 June 2024:

i) Discuss how professional scepticism should be applied to the statement made by Clement. (5 Marks)

ii) Explain any FOUR principal audit procedures to be performed on the impairment of buildings of Mugabo Investments in the year ended 30 June 2024. (4 Marks)

b) Assuming Kwizera & Co accepts being engaged to conduct forensic investigations into the suspected fraud committed by the senior marketing officer:

i) Recommend FOUR procedures to be used in performing the forensic investigation on the alleged bribery payments at Mugabo Investments. (4 Marks)

ii) Briefly explain to the Finance Director of Mugabo Investments any THREE information contents that will be included in the forensic investigation report and the importance of such information to Mugabo Investments. (6 Marks)

c) An audit trainee of Kwizera & Co has raised a concern regarding the payment of the alleged bribes to the reputation of the firm, as these can be suspected as related to money laundering crimes. The trainee has stated that "if this is proved to be a money laundering act, Kwizera & Co may be held liable by the regulators in Rwanda as aiding money laundering activities" In regard to the suspected crime at Mugabo Investments,

Required:

Briefly describe any FOUR measures that Kwizera & Co should adopt in preventing the firm from being used for money laundering purposes. (4 Marks)

2. The audit of Jean Transporters Co

You are also the audit manager on the audit of Jean Transporters Co (JTC) for the financial year ended 30 June 2024. JTC is a new audit client for Kwizera & Co. JTC a private company incorporated in Rwanda and has been operating as a goods distribution company for the past twenty (20) years. The company employs over 5,000 employees in its different departments. As part of its services to the customers, JTC provides refrigerated, bulk and heavy-truck transportation services which are used to deliver customer goods to their destinations using strictly supervised time-managed delivery schedules.

You have obtained the following financial information from the Finance Director of JTC:
Profit or loss for the year ended:

	30 June 2024 (non-audited)	**30 June 2023 (audited)**
	FRW million	**FRW million**
Income		
Sales revenue (Note 1)	**12,920**	**11,552**
Expenses		
Materials expense (Note 2)	7,040	5,976
Personnel costs	3,248	2,848
Depreciation and amortization expenses	544	760
Other expenses	1,568	1,856
Finance costs	232	176
Total expenses	**12,632**	**11,616**
Profit/Loss before tax	**288**	**(64)**

Extract statement of financial position (based on assets and liabilities) as at:

	30 June 2024 (non-audited)	**30 June 2023 (audited)**
	FRW million	**FRW million**
Assets		
Tangible non-current assets (includes PPE & Right-of-use assets)	6,312	6,648
Intangible assets	576	496
Inventories	48	40
Trade receivables	1,096	1,072
Cash and bank	272	224
Total assets	**8,304**	**8,480**
Liabilities		
Restructuring provision	776	864
Lease obligation	432	352
Trade payables	1,104	1,048
Income tax liability	240	264
Other liabilities	680	632
Total liabilities	**3,232**	**3,160**

Additional Information:

1) JTC provides trade discounts to its customers that give big business to the company (i.e., customers that engage the company with high volumes of goods to transport). The sales revenue figure recognised in the financial statements is an amount computed after a deduction of the trade discounts that have been granted in the year. The trade discounts

granted to each customer are calculated on cumulative sales for the financial year and awarded on a quarterly basis in arrears.

2) The expenses recognized as "materials expense" include expenses incurred on fuel, repair materials, transportation and vehicle maintenance costs.
3) The movement on the tangible non-current assets has been computed as follows:

The tangible non-current assets schedule:

	Land & Buildings (includes leased property)	**Motor vehicles**	**Other PPE items**	**Total PPE**
	FRW million	**FRW million**	**FRW million**	**FRW million**
Historical cost				
Opening balance (1 July 2023)	6,056	2,048	1,424	**9,528**
Additions in the year (including the right-of-use assets – Note 4)	112	216	88	**416**
Less: Disposals in the year	(200)	(208)	(112)	**(520)**
Closing balance (30 June 2024)	**5,968**	**2,056**	**1,400**	**9,424**
Accumulated depreciation				
Opening balance (1 July 2023)	1,432	768	680	**2,880**
Depreciation charge for the year (including the depreciation for the right-of-use assets – Note 4)	192	152	200	**544**
Less: Disposals in the year	(64)	(176)	(72)	**(312)**
Closing balance (30 June 2024)	**1,560**	**744**	**808**	**3,112**
Net carrying value (30 June 2024)	**4,408**	**1,312**	**592**	**6,312**
Net carrying value (30 June 2023)	**4,624**	**1,280**	**744**	**6,648**

Depreciation is charged using a straight-line method, assuming the following useful lives:

- Owned buildings: 20 years
- Motor vehicles: 8 years
- Other PPE: 7 years

4) Included in JTC's assets are "purchased intangible assets" that include an operating license and vehicle tracking software among others. JTC applies the cost method of IAS 38 *Intangible Assets* to account for these intangible assets. Internally generated intangible

assets (mainly a software developed for customers to use in auto-generating goods delivery documents) are initially recognized at cost if the asset recognition criteria are met.

5) The trade receivables are measured at their principal amount, less any provisions for doubtful debts. In computing the trade receivables, JTC has applied a 2% rate as the estimated provision for doubtful debts compared to the rate of 5% last year after the management started implementing new credit terms to the customers.
6) The restructuring provision relates to the balances for the termination benefits payable to the employees and other obligations arising on the closure of 25% of its distribution depots that took place in December 2022. The depots and other equipment at the closed depots were disposed of through sale.
7) For the first time, JTC leased a number of distribution depots in five districts on 1 July 2023. In all the lease agreements, JTC will be making lease rental payments on 1 July with the first rental payment scheduled for 1 July 2024. JTC has recognized the depreciation on the assets using the straight-line method and maintained the lease obligation at the present value of the future lease payments computed on 1 July 2023.
8) Other liabilities are related to employee costs payable (including unpaid amounts for accrued wages and salaries, overtime, and a profit-based bonus payable to senior management staff).

Required:

d) In respect to the planning of the final audit for JTC's financial statements for the year ended 30 June 2024:

i) **Calculate and justify the amount to be used as the preliminary materiality that should be used in the audit of JTC for the year ended 30 June 2024.** (6 Marks)

ii) Using analytical procedures (where applicable), **evaluate the risks of material misstatements that should be considered in the planning of the final audit of JTC's financial statements for the year ended 30 June 2024.** (15 Marks)

e) **Briefly explain THREE principal audit procedures to be performed in respect of the carrying amount of each of the following items in JTC's statement of financial position as of 30 June 2024:**

i) **Motor vehicles.** (3 Marks)

ii) **Trade receivables,** (3 Marks)

(Total: 50 Marks)

SECTION B

QUESTION TWO

You are an audit manager at Murenzi & Partners, a firm of Certified Public Accountants in Rwanda. You are currently responsible for assigning audit personnel to the final audit of Rwanda Tours & Safaris (RTS), a company that was listed on the Rwanda Stock Exchange on 1 July 2023. You are to select the audit staff who will form the team to conduct the audit of RTS's financial statements for the year ended 30 June 2024.

You have been informed of the following matters:

i) Low profits reported by RTS

RTS has disclosed to the audit partner that the company has reported a very low profit for the year ended 30 June 2024. This figure is significantly lower than the forecast budget approved by the Board at the start of the year.

The poor profit levels are expected to worsen in the next financial year because the significant synergies that were expected from RTS's acquisition of Swift Tours, a former competitor, have not materialized.

It has emerged that the main reason for RTS's poor performance is that a large number of Swift Tours' assets are significantly impaired.

You are aware that RTS previously engaged your firm's corporate finance department, assisted by two audit assistants, to carry out a due diligence assignment on Swift Tours' net assets. It was your firm's due diligence report that RTS relied on when deciding to acquire Swift Tours on 1 July 2023.

ii) Inclusion of Bosco on the audit team at RTS's request

The Finance Director of RTS has requested that a specific audit senior, Bosco Sibomana, be assigned to the audit team that will audit RTS's financial statements for the year ended 30 June 2024. Bosco has never been assigned to the RTS audit in previous years.

You have just confirmed that Bosco is the brother of RTS's Managing Director.

Required:

a) **Comment on the ethical and other professional issues raised by each of the two situations above, and explain the actions that Murenzi & Partners should take.**

(11 Marks)

b) Today is 1 August 2024. Murenzi & Partners, a firm of Certified Public Accountants in Rwanda, has been informed that Rwanda Tours & Safaris (RTS) acquired 100% of the shareholding of Global Hotels Ltd on 1 July 2024.

The acquisition followed a due diligence review of Global Hotels conducted by Murenzi & Partners on behalf of RTS. The due diligence engagement involved some of the firm's senior audit staff, who worked alongside the corporate finance team.

RTS considers the acquisition of Global Hotels a strategic initiative to improve the group's financial performance. Global Hotels owns a chain of hotels across Rwanda, particularly in

various districts frequently visited by tourists. Following the acquisition, RTS's management plans to market its tourism activities as a comprehensive service package that includes both tour operations and hotel accommodation.
Management also expects that the business combination will enhance Global Hotels' performance in districts where it had previously lost market share to competitors.

The following extracts of the financial statements for RTS Group and Global Hotels relate to the year-ended 30 June 2024:

	Year ended 30 June 2024	
	RTS Group (excluding Global Hotels	**Global Hotels**
	FRW million	**FRW million**
Revenue	12,728	1,782
Profit before tax	1,857	232
Total assets	7,531	1,356

RTS has approached Murenzi & Partners, proposing that the firm be appointed as external auditors of Global Hotels for the year ending 30 June 2025.
Management has indicated that, if the firm accepts this engagement, an additional audit fee of 20% (based on the current audit fee for the year ended 30 June 2024) will be paid to cover the audit of the enlarged RTS Group and the separate financial statements of Global Hotels for the year ending 30 June 2025.

Required:

Using the information provided, **discuss at least FIVE matters that Murenzi & Partners should consider before accepting the engagement to audit the financial statements of Global Hotels Ltd for the year ending 30 June 2025**. (10 Marks)

c) The proposed engagement partner for the audit of Global Hotels has scheduled a meeting with the Audit Committee of RTS to be held next week. During the meeting, the partner intends to discuss the firm's preconditions for the proposed audit and will inform RTS and Global Hotels that these must be satisfied before the firm accepts the engagement.

Required:

With reference to the proposed audit of Global Hotels, **briefly explain how Murenzi & Partners will determine whether the preconditions for the audit are present.** (4 Marks)

(Total: 25 Marks)

QUESTION THREE

a) Today is 1 August 2024. You are a manager in Dusabe & Co, an audit firm in Rwanda. Dusabe & Co was engaged by Nyanza Industries Ltd (NIL) to review and provide a report on the Company's Prospective Financial Information (PFI) required by a bank to support an application for a FRW 500 million long-term loan. The PFIs comprise the forecast cash flows for a 12-month period ending 31 December 2025. The funds from the loan will be invested, on 1 January 2025, in the purchase of new equipment that will be used to manufacture a new product range.

The examination procedures on the forecast cash flows have concluded that there is no reason to believe that the forecast is unrealistic or that NIL's forecast cash flows have not been properly prepared. You are currently reviewing the following extracts of the draft assurance report on the NIL's forecast cash flows, before the report is signed and submitted to NIL:

Independent auditor's report on the forecast of Nyanza Industries Ltd

To the shareholders of Nyanza Industries Ltd:
We have examined the forecast cash flow information of Nyanza Industries Ltd contained in the loan proposal in accordance with the relevant standards on assurance engagements applicable to the examination of prospective financial information. Dusabe & Co is not responsible for the cash flow forecast, including the assumptions on which it is based.

Based on our examination of the evidence supporting the assumptions, we believe that these assumptions provide a reasonable basis for the forecast. Further, in our opinion the forecast is properly prepared on the basis of the assumptions and is presented in accordance with IFRS.

Actual results are likely to be different from the forecast since the assumptions on which the forecast is based are unlikely to be accurate.

Signed by assurance engagement partner, Dusabe & Co.

Required:

Critically, evaluate the extract of the draft assurance report on the forecast cash flows for Nyanza Industries Ltd. (9 Marks)

***Note**: You are not required to re-draft the assurance report.*

b) One of Dusabe & Co's audit clients is Muhanga Minerals Co ('MMC'), a listed company. MMC is primarily a minerals-producing company based in Muhanga. In the company's new strategic plan, MMC is focusing on the integration of social and environmental policies in the company's mainstream activities. MMC wishes to develop a variety of social and environmental Key Performance Indicators (KPIs) against which an annual assessment will be reported in the company's annual report, starting with the current financial year. This will be the first year that MMC will be adding KPIs as a section in the annual report.

The audit committee of MMC has approached Dusabe & Co for guidance in the company's social and environmental report that will be published in the annual report for the year ending 30 September 2024. As a manager at Dusabe & Co, you have been assigned to handle the request from MMC. You have obtained and read through a recent report from the Board Chairman of MMC that was presented to the Rwanda Mines, Petroleum and Gas Board (RMB) in August 2024, from which you have picked the following extracts:
MMC sponsors community sports championships in Muhanga district and these sports events are organized by MMC annually. Additionally, in the past five years, the company operates the 'MMC clinic' at its headquarter premises in Muhanga that offers subsidized medical services to the public. The MMC clinic provides an in-patient and out-patient service and free health education talks to the public. MMC's vision is to continue its investment in health and safety and the environment in the future.

MMC's health and safety, security and environmental policies are of the highest standard in the mining sector. We aim to operate under principles of no-harm to people and the environment.

MMC's main contribution to sustainable development comes from conducting mining activities in a cleaner and more socially responsible way. This means improving the environmental and social performance of MMC's operations.'

Your review of the human resource reports has revealed that for the last five years, an average of ten (10) MMC employees have lost their lives at work every year.

Required:

Recommend FIVE KPIs that could be used to monitor MMC's social and environmental performance and outline the nature of evidence that should be available to provide assurance on the accuracy of the KPIs recommended. (10 Marks)

c) Hardware Hub is one of the largest clients of Dusabe & Co. Hardware Hub operates with 30 big stores in the major cities and towns across Rwanda, selling building materials to retail customers. This year, the company began the implementation of a new computerised wages system. The employees of the company work a standard eight-hour day. The working hours are recorded using a magnetic card system, with each employee swapping the card in a card reader to auto-record the "signing-in" and "signing-out" of the work on each day worked to record the number of hours worked per day.

Hours worked are calculated each week by the company's computer system using the magnetic card information. Any "overtime" worked is calculated as the excess hours over the standard limit of 8 hours per day worked. Any overtime over 10% of standard hours is sent on a computer-generated report by e-mail to the payroll accountant. If necessary, the payroll accountant is permitted by the computer system to reverse overtime payments if the hours registered for an employee as worked are wrong.

The employees' statutory deductions (e.g., PAYE, NSSF etc.) and net pay are also computer-calculated, with the net salary payments being made directly into the employee's bank account. The only other manual check is when the payroll accountant authorises the net pay from Hardware Hub's bank account, having reviewed the list of wages to be paid.

Required:

By use of examples from Hardware Hub, **discuss THREE benefits of using Computer-Assisted Audit Techniques in obtaining sufficient and appropriate audit evidence used to draw reasonable conclusions to form the basis of the audit opinion.** (6 Marks)

(Total: 25 Marks)

QUESTION FOUR

You are the Audit Manager responsible for the audit of Aliko Rwanda Ltd (ARL) for the financial year ended 31 July 2022. The audit seniors have completed fieldwork, and you are now reviewing the key issues identified during the audit.

Aliko Rwanda Ltd manufactures costumes, including wedding dresses and other regalia sold as gifts and souvenirs.

In late 2019, the COVID-19 pandemic significantly affected economic and financial markets, and almost all industries faced severe challenges arising from the economic downturn. Many entities in the travel, hospitality, leisure, and retail industries experienced sharp declines in revenue due to government restrictions, quarantine measures, and voluntary changes in consumer Behaviour, such as social distancing.

These effects were further intensified by Financial market volatility and erosion, deteriorating credit and liquidity conditions, Increased government intervention, rising unemployment, Broad declines in consumer spending, Inventory build-ups, Reduced production due to lower demand, and Layoffs and other restructuring activities.

Aliko Rwanda Ltd was affected by all the above and it has come to your attention that cash at the year-end was only FRW150,000.

Extracts from the draft financial statements and other relevant information are given below:

	Note	**July 2022**	**July 2021**
		FRW "000"	**FRW "000"**
Revenue		2,440	3,950
Operating expenses		(2,100)	(2,800)
Finance charge		(520)	(500)
(Loss)/profit before tax		(180)	650
Total assets		10,400	13,500
Long-term liabilities – bank loan	1	3,500	3,000
Short-term liabilities – trade payables	2	900	650
Disclosed in notes to financial statements:			
Undrawn borrowing facilities	3	500	1,000
Contingent liability	4	120	-

Additional Information:

1. In March 2022, the bank loan was increased by drawing on available borrowing facilities. The loan carries a fixed interest rate and is secured on Aliko's property, including the head office and manufacturing site. The first loan repayment of FRW 350,000 is due on 30 June 2023.
2. Aliko Rwanda Ltd has renegotiated trade terms with its main suppliers of cotton and silk, extending payment terms from 50 days to 80 days to improve working capital.
3. The borrowing facilities are due for review by the bank in April 2023 and contain financial covenants, including; Interest cover must be maintained at 2 times and the ratio of bank loan to operating profit must not exceed 4:1.
4. The contingent liability relates to a letter of support which ARL has provided to its main supplier of silk material, a company currently facing difficult trading conditions.

Required:

a) **Discuss the matters which may cast significant doubt on Aliko Rwanda Ltd's ability to continue as a going concern** (12 Marks)

b) **Recommend the audit procedures to be performed in relation to the going concern matters identified.** (7 Marks)

c) **Analyse the applications and limitations of analytical procedures** (6 Marks)

(Total 25 Marks)

End of question paper