CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.2 AUDIT PRACTICE AND ASSURANCE SERVICES

DATE: FRIDAY, 29 MAY 2026

MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE

Marking Guide:

QN	Description	Marks	Total Marks
a	Matters that the group auditors of IHOGOZA Ltd should consider before accepting the engagement to audit the consolidated financial statements of the group: Good answers should be technically correct, well discussed, and also tailored to the case study. Generic answers should be awarded half marks.		
	Award 2 marks for any correct and well explained answer. Maximum of any 5 valid answers. Other valid answers provided by candidates and not in this marking guide should be considered (5 answers x 2 marks = 10 marks)	10	10
b	The principal risks of material misstatement to be considered in planning the audit of IHOGOZA Ltd's consolidated financial statements for the year ended 31 December 2025: Good answers should identify a risk (actual or percieved), explain why it matters, and the implication it would have on financial statements. Materiality and accounting standards referenced make the answer stronger.		
	Award 2 marks for any correct and well explained answer, Otherwise award 1 mark for a valid point raised, but not/well explained. Maximum of any 10 valid answers. Other valid answers provided by candidates and not in this marking guide should be considered as long as they are picked from the case study and not imagined (10 answers x 2 marks = 20 marks)	20	20
c	Matters that should be communicated by the group auditor to the component auditors in accordance with auditing standards: Good answers should be technically correct, well discussed, and also tailored to the case study. Generic answers should be awarded half marks.		
	Award 2 marks for any correct and well explained answer, otherwise awar half marks for a correct answer not/well expalined. Maximum of any 5 valid answers.Other valid answers provided by candidates and not in the case study should be considered (5 answers x 2 marks = 10 marks)	10	10
d (i)	Inventory:		

QN	Description	Marks	Total Marks
	Award 1 mark for any correct answer. Since the requirement was to briefly state, no additional marks for detailed explaining. Maximum of any 6 valid answers. Other valid answers provided by candidates and not in the case study should be considered (6 answers x 1 mark = 06 marks)	6	
d (i)	Investment property:		
	Award 1 mark for any correct answer. Since the requirement was to briefly state, no additional marks for detailed explaining. Maximum of any 4 valid answers. Other valid answers provided by candidates and not in this marking guide should be considered (4 answers x 1 mark = 04 marks)	4	10
Total Marks			**50**

Model Answers:

(a) Discuss the matters that the group auditors of IHOGOZA Ltd should consider before accepting the engagement to audit the consolidated financial statements of the group.

Independence and ethical considerations:

The audit firm must evaluate whether it is independent of IHOGOZA Ltd and all its subsidiaries, in accordance with applicable ethical standards. This includes assessing any financial interests, business relationships, or provision of non-audit services to the group. Given the group structure and multiple subsidiaries, threats to independence may arise at both parent and component levels and must be carefully evaluated and safeguarded.

Competence and capability:

The auditors must consider whether they possess the necessary technical knowledge and industry expertise to audit a manufacturing group involved in construction materials. This includes familiarity with IFRS requirements such as revenue recognition, fair value accounting, and group consolidations. The presence of complex areas such as investment property valuation and development cost capitalisation requires a suitably skilled audit team.

Availability of sufficient resources:

The audit firm should assess whether it has adequate staff, time, and logistical capacity to perform the audit effectively. Given that IHOGOZA Ltd has multiple subsidiaries and geographically dispersed operations, coordination of audit work—including attendance at inventory counts in remote locations—may require significant resources. Failure to allocate sufficient resources could impair audit quality.

Integrity of management:

The auditors should evaluate the integrity and ethical values of management before accepting the engagement. Indicators such as aggressive accounting practices (e.g., full recognition of a large contract near year-end or capitalisation of development costs) may raise concerns about management bias. If management integrity is questionable, this increases audit risk and may lead the auditor to decline the engagement.

Understanding the group structure:

The auditor must obtain an understanding of the group structure, including the nature and extent of control over subsidiaries. IHOGOZA Ltd has both wholly owned and partially owned subsidiaries, which introduces complexities such as non-controlling interests and goodwill. A clear understanding is essential to assess audit risks and determine the scope of group audit procedures.

Reliance on component auditors: The group auditor should consider whether it is appropriate to rely on the work of component auditors for subsidiaries. This involves evaluating their competence, independence, and regulatory environment. Since different audit firms are involved across the group, the group auditor must be satisfied that their work can be relied upon to support the group audit opinion.

Financial reporting framework:

The auditor should confirm that IHOGOZA Ltd prepares its financial statements in accordance with an acceptable financial reporting framework, in this case IFRS. This is important to ensure that the audit opinion can be expressed appropriately. The auditor must also consider whether management has the capability to prepare IFRS-compliant group financial statements.

Terms of engagement:

The auditor must agree the terms of engagement with management and those charged with governance in accordance with ISA 210. This includes defining the scope of the audit, responsibilities of management and the auditor, and the applicable financial reporting framework. Clear terms help prevent misunderstandings, particularly in a group audit context.

(b) Identify and explain the principal risks of material misstatement to be considered in planning the audit of IHOGOZA Ltd's consolidated financial statements for the year ended 31 December 2025.

The following materiality thresholds will be referenced through out the answer:

- **Profit before tax (PBT 2025): FRW 4,900,000 → Materiality ≈ 5% = FRW 245,000**
- **Revenue: FRW 48,500,000 → Materiality ≈ 1% = FRW 485,000**
- **Total assets: FRW 72,000,000 → Materiality ≈ 1% = FRW 720,000**

Revenue recognition (IFRS 15 – Revenue from Contracts with Customers):

Revenue is recognised based on stage of completion, requiring significant judgement in estimating progress and costs to complete. The recognition of a FRW 8 billion contract at year-end raises a cut-off risk and may indicate premature recognition. Given that this amount alone represents approximately 16.5% of total revenue and over 160% of PBT, any misstatement would be highly material and could significantly overstate profit.

Inventory valuation (IAS 2 – Inventories):

Inventory is material at FRW 8.6 billion, and the presence of slow-moving roofing materials suggests a risk that NRV may be below cost. The change in valuation method introduces further risk of inconsistency or manipulation. Even a 5% overvaluation (FRW 430,000) would exceed PBT materiality (FRW 245,000), leading to a material overstatement of both assets and profit.

Inventory existence:

Inventory held across multiple remote locations increases the risk that recorded quantities may not physically exist. The audit team may not attend all locations, creating a limitation in verifying existence. Any overstatement of inventory would directly inflate total assets and reduce cost of sales. If, for example, 3–5% of inventory is misstated (FRW 258,000–430,000), this would exceed PBT materiality. This would result in overstated assets and understated cost of sales.

Property, plant and equipment additions (IAS 16 – PPE):

Additions of FRW 9 billion are significant relative to total assets (12.5%), creating a risk of incorrect capitalisation of costs. If even a small portion (e.g., 3% = FRW 270,000) is incorrectly capitalised, this would exceed materiality. This would overstate non-current assets and understate expenses.

Depreciation estimates (IAS 16 – PPE):

The reassessment of useful lives leading to lower depreciation charges introduces a risk of management bias. If depreciation is understated by even FRW 300,000, this would exceed PBT materiality. This would result in overstated profits and inflated carrying values of PPE.

Lease accounting (IFRS 16 – Leases):

Some PPE has been acquired through lease arrangements, which must be recognised as right-of-use assets and lease liabilities. There is a risk that leases are not correctly identified or fully recognised, particularly if treated as operating expenses. This could result in understatement of liabilities and assets, and misstatement of expenses. Given the scale of PPE additions, any misclassification above FRW 245,000 would be material, leading to understated liabilities and assets.

Investment property valuation (IAS 40, IFRS 13):

Investment properties are measured at fair value, with a gain of FRW 1.5 billion recognised in profit or loss. The external valuer has indicated limited market data, increasing estimation uncertainty. If the valuation is overstated, both profit and total assets will be materially overstated.

The fair value gain of FRW 1.5 billion represents approximately 31% of PBT, making it highly material. The valuer's reliance on limited market data increases estimation uncertainty. Even a 10% overstatement (FRW 150,000) approaches materiality, while larger errors would clearly result in material overstatement of both profit and total assets.

Goodwill impairment (IAS 36 – Impairment of Assets):

Goodwill of FRW 4.2 billion has not been impaired despite fluctuating demand in the quarrying business. Impairment testing involves significant judgement, including cash flow forecasts and discount rates.

Goodwill of FRW 4.2 billion is significant relative to total assets (5.8%). Given fluctuating demand, there is a risk that impairment has not been recognised. An impairment of just 10% (FRW 420,000) would exceed PBT materiality, leading to overstatement of assets and profit.

Development costs capitalisation (IAS 38 – Intangible Assets):

Development costs of FRW 2.4 billion have been capitalised, which requires strict criteria to be met, including technical feasibility and future economic benefits. There is a risk that these criteria have not been fully satisfied, especially for an internal system. If these criteria are not met, the entire balance may need to be expensed. Even a 10% misstatement (FRW 240,000) is close to PBT materiality, and full misstatement would be highly material, overstating assets and profit.

Government grant recognition (IAS 20 – Government Grants):

The FRW 2 billion government grant has been recognised as deferred income and amortised over 5 years. There is a risk that the grant has not met recognition criteria or that the amortisation period is inappropriate. Incorrect treatment could lead to misstatement of income and liabilities.

The FRW 2 billion grant is material relative to the financial statements. Incorrect amortisation or failure to meet conditions could misstate income. For example, a misstatement of just 15% (FRW 300,000) would exceed PBT materiality, leading to incorrect recognition of income and liabilities.

Trade receivables recoverability (IFRS 9 – Financial Instruments):

Trade receivables have increased significantly from FRW 5.0 billion to FRW 6.7 billion, which may indicate collection issues. Expected credit losses (ECL) must be assessed, particularly for large infrastructure contracts. Failure to recognise adequate impairment would overstate receivables and profit. If expected credit losses are understated by even 15% of the increase (FRW 255,000), this would exceed materiality. This would overstate receivables and profit.

Group consolidation (IFRS 10 – Consolidated Financial Statements):

The preparation of consolidated financial statements involves eliminating intercompany transactions and balances. The presence of unreconciled intercompany balances increases the risk of incomplete or inaccurate eliminations. If intercompany balances are overstated by amounts exceeding FRW 245,000, this would materially misstate group revenue, expenses, or balances. Given the volume of transactions, this risk is significant.

Non-controlling interest (IFRS 10 / IFRS 3):

IHOGOZA Ltd holds less than 100% in some subsidiaries, requiring correct calculation and presentation of NCI. Errors may arise in allocating profits or net assets between the parent and

NCI. Given the size of subsidiaries, even small percentage errors could exceed FRW 245,000. This would affect equity and profit attribution between owners and NCI.

Related party transactions (IAS 24 – Related Party Disclosures):

There are intercompany transactions, including management fees and supply of materials, some of which remain unreconciled. This creates a risk of incomplete recording or incorrect pricing. If balances or transactions exceeding materiality are omitted or misstated, this would affect both financial position and disclosures. Inadequate disclosure would also breach IAS 24 requirements.

Use of component auditors (ISA 600 – Group Audits):

The group relies on multiple component auditors, increasing the risk of inconsistent audit quality and approaches. If the group auditor does not adequately review or coordinate their work, material misstatements in subsidiaries may go undetected. If material misstatements above FRW 245,000 exist in subsidiaries and are not identified, they could aggregate to a material misstatement at group level. This could lead to an inappropriate audit opinion on the group financial statements.

(c) Explain the matters that should be communicated by the group auditor to the component auditors in accordance with auditing standards.

Scope of work and use of component auditors (ISA 600):

The group auditor should clearly communicate the scope of work to be performed by component auditors and confirm that their work will be used in forming the group audit opinion. This is particularly important given that IHOGOZA Ltd uses different auditors for each subsidiary. Clear instructions ensure that the component auditors perform sufficient and appropriate work aligned to group requirements.

Ethical requirements and independence:

The group auditor must request confirmation that component auditors comply with relevant ethical requirements, including independence. Given the different audit firms involved across the subsidiaries, this helps ensure consistency in ethical standards across the group audit. Any threats to independence must be identified and addressed.

Identified significant risks:

The group auditor should communicate significant risks identified at the group level, such as revenue recognition, investment property valuation, and goodwill impairment. This ensures that component auditors focus their procedures on areas of higher risk within their respective subsidiaries. It promotes a coordinated and risk-based audit approach.

Materiality levels:

Component auditors should be informed of the materiality thresholds to be applied in their work, including component materiality. This ensures that audit procedures are performed at an appropriate level of precision relative to the group financial statements. Consistent application of materiality is critical given the size and structure of IHOGOZA Ltd.

Related parties and intercompany transactions (IAS 24):

The group auditor should communicate identified related parties and require component auditors to report any additional related party transactions. This is particularly relevant given the intercompany transactions and unreconciled balances within the group. Proper identification supports accurate elimination and disclosure.

Reporting requirements and deadlines:

Clear instructions should be given regarding the form, content, and timing of communications from component auditors. This ensures that all necessary information is received in time to support the group audit opinion. Delays or incomplete reporting could affect the overall audit timeline.

Significant findings and misstatements:

Component auditors should be required to report significant findings, identified misstatements, and internal control deficiencies. This allows the group auditor to assess whether these issues could impact the group financial statements. It is particularly important where subsidiaries contribute materially to group balances.

Access to working papers:

The group auditor should request access to component auditors' working papers where necessary. This enables the group auditor to evaluate the adequacy of the work performed and determine whether reliance can be placed on it. This is important given the reliance placed on multiple audit firms.

Accounting policies and reporting framework (IFRS):

Instructions should be provided to ensure that all components apply consistent accounting policies in line with IFRS. Differences in accounting treatments across subsidiaries could lead to misstatements in the consolidated financial statements. This is particularly relevant for areas such as investment property and revenue recognition.

Subsequent events and other matters (ISA 560):

Component auditors should be requested to report any subsequent events or significant matters arising after year-end. This ensures that all relevant information is considered before finalising the group audit opinion. Such events could materially impact the group financial statements.

(d) Briefly state the audit procedures that the group auditor should perform to obtain sufficient and appropriate audit evidence in relation to:

(i). Inventory.

1. Attend the year-end inventory count at major warehouse locations and observe management's counting procedures to confirm that inventory quantities are accurately recorded and controls are effectively implemented.

2. Perform test counts on selected inventory items and trace these to the inventory listing to verify completeness and accuracy of recorded quantities.
3. Inspect the inventory listing for items on the last goods received notes (GRNs) and goods despatched notes (GDNs) before and after year-end to ensure that cut-off is correctly applied.
4. Review the change in valuation method from standard costing to weighted average and recalculate selected items to confirm that the method has been applied consistently and accurately.
5. Examine inventory ageing reports and identify slow-moving roofing materials, then assess whether appropriate write-downs to net realisable value have been made.
6. Inspect supporting documentation such as supplier invoices and production cost records to verify that inventory is recorded at the lower of cost and net realisable value in accordance with IAS 2.
7. For warehouses not attended, obtain confirmations from management and review internal audit reports or perform alternative procedures to verify the existence of inventory held in remote locations.
8. Reconcile the physical inventory count results to the general ledger and investigate any significant differences to ensure that inventory balances are complete and accurate.

(ii). Investment property.

1. Obtain the external valuer's report and evaluate the valuer's qualifications, experience, and independence to determine whether reliance can be placed on the valuation.
2. Review the valuation methodology used and assess whether it is consistent with the requirements of IFRS 13 for fair value measurement.
3. Challenge key assumptions used in the valuation, such as rental yields and discount rates, to assess whether they are reasonable in the context of the Rwandan property market.
4. Compare the valuation inputs to available market data or recent transactions to corroborate the reasonableness of the fair values determined.
5. Recalculate the fair value gain of FRW 1.5 billion recognised in profit or loss to ensure mathematical accuracy and correct recording.
6. Inspect lease agreements for the investment properties to confirm rental income streams and support assumptions used in the valuation.
7. Verify ownership of the investment properties by inspecting title deeds or legal documents to confirm the existence and rights over the assets.
8. Review disclosures in the financial statements to ensure compliance with IAS 40, including the basis of valuation and key assumptions used.

SECTION B

QUESTION TWO

Marking Guide:

QN	Description	Marks	Total Marks
a (i)	Who the auditor's report is addressed to: This question requires a straight forward answer. No need for explanations.		
	Award 1 mark if a candidate answers this correctly (shareholders of MWEZI Ltd). 'Shareholders' only is also acceptable.	1	1
a (ii)	Type of audit opinion that should be expressed and justify your answer: Good answers for this question should clearly state the type of opinion and why the candidates this is the best opinion. In some cases, if the candidate assumed the misstatement was pervasive, the opinion may be different from what is provided in the case study and that is acceptable. But for that to be correct, the argument must be valid and the assumption is also correct. Award 2 marks for each correct answer (1 mark for the correct opinion and 1 mark for a correct justification)		
	Trade receivable – FRW 600,000 = Audit opinion: Qualified opinion	2	
	Inventory obsolescence – FRW 900,000 = Audit opinion: Qualified opinion	2	
	Inventory count limitation – FRW 2,500,000 = Audit opinion: Disclaimer of opinion or qualified if parvasive	2	
	Lawsuit provision – FRW 1,800,000 = Audit opinion: Adverse opinion	2	
	Going concern uncertainty = Audit opinion: Adverse opinion (depending on adequacy of disclosure)	2	
	Depreciation not charged – FRW 300,000 = Audit opinion: Qualified opinion	2	
	Fire after year-end – FRW 3,000,000 = Audit opinion: Qualified opinion	2	14
b	Audit procedures your audit firm should perform in relation to the fire that occurred on 15 February 2026: Good answers should be technically correct, well discussed, and also tailored to the case study. Generic answers should be awarded half marks.		
	Award 2 marks for any correct and well explained answer. Maximum of any 5 valid answers. Other valid answers	10	10

QN	Description	Marks	Total Marks
	provided by candidates and not in this marking guide should be considered (5 answers x 2 marks = 10 marks)		
Total Marks			**25**

Model Answers:

(a) Assuming your audit firm has been appointed to audit MWEZI Ltd and with reference to the above case study, answer the following questions:

(i) State who you would address the auditor's report to.

The auditor's report is addressed to the **shareholders of MWEZI Ltd**, as they are the primary users of the financial statements.

(ii) For each of the seven independent scenarios above, determine the type of audit opinion that should be expressed and justify your answer. *NOTE: Each scenario should be treated independently. You are NOT required to draft the audit report.*

1. Trade receivable – FRW 600,000

Audit opinion: Qualified opinion (material misstatement)

Profit before tax is FRW 2,200,000; applying 5% gives materiality of **FRW 110,000**. The unprovided receivable of FRW 600,000 is clearly material (over 5 times materiality) and should be impaired under IFRS 9, as the customer went into liquidation after year-end, indicating a loss condition existed at the reporting date.

As the misstatement is material but limited to receivables, the auditor should issue a **qualified opinion ("except for")** due to overstatement of assets and profit.

2. Inventory obsolescence – FRW 900,000

Audit opinion: Qualified opinion (material misstatement)

Materiality based on PBT is **FRW 110,000**, and the overstatement of inventory by FRW 900,000 is highly material. Under IAS 2, inventory should be valued at the lower of cost and net realisable value, and obsolete items should be written down.

The misstatement is material but not pervasive, as it affects only inventory and cost of sales, therefore a **qualified opinion** is appropriate.

3. Inventory count limitation – FRW 2,500,000

Audit opinion: Disclaimer of opinion (material and pervasive limitation of scope)

Inventory represents a significant portion of total assets (FRW 2.5m out of FRW 12m = ~21%). The auditor was unable to obtain sufficient appropriate audit evidence over this balance, and no alternative procedures were possible.

Given the magnitude relative to total assets and the potential impact on profit, the limitation is both material and pervasive. Therefore, a **disclaimer of opinion** is appropriate.

4. Lawsuit provision – FRW 1,800,000

Audit opinion: Adverse opinion (material and pervasive misstatement)

Materiality is **FRW 110,000**, and the unrecorded provision of FRW 1,800,000 is extremely material (over 16 times materiality). IAS 37 requires recognition of a provision where an obligation is probable and can be reliably estimated.

Failure to recognise this liability significantly understates liabilities and overstates profit, potentially distorting the financial position as a whole. This is both material and pervasive, requiring an **adverse opinion**.

5. Going concern uncertainty

Audit opinion: Unmodified opinion OR adverse opinion (depending on adequacy of disclosure)

The company has significant cash flow issues and no confirmed financing, indicating a material uncertainty under IAS 1. If adequate disclosure is provided, an **unmodified opinion with a material uncertainty paragraph** may be appropriate.

However, if disclosures are inadequate, the impact is pervasive as it affects the fundamental basis of preparation. In such a case, an **adverse opinion** would be appropriate.

6. Depreciation not charged – FRW 300,000

Audit opinion: Qualified opinion (material misstatement)

Materiality is **FRW 110,000**, and the omitted depreciation of FRW 300,000 is material. Under IAS 16, depreciation must be charged systematically over the asset's useful life.

The misstatement overstates both profit and non-current assets but is limited in scope, so a **qualified opinion** is appropriate.

7. Fire after year-end – FRW 3,000,000

Audit opinion: Qualified opinion (material misstatement due to inadequate disclosure)

The fire occurred after year-end and is a non-adjusting event under IAS 10, as it does not relate to conditions existing at the reporting date. However, it is highly material (FRW 3m vs materiality of FRW 110k) and requires disclosure.

Failure to disclose this event results in incomplete financial statements. As this affects disclosures but not recognition, a **qualified opinion** is appropriate.

(b) Discuss the audit procedures your audit firm should perform in relation to the fire that occurred on 15 February 2026.

The fire occurred between the date of the financial statements and the date of their issue, making it a subsequent event under ISA 560. The auditor has specific responsibilities once aware of such events:

- The auditor is under no obligation to perform audit procedures after the auditor's report has been issued; however, if they become aware of a fact which may require amendment, they must take appropriate action. In this case, the fire is highly material and requires disclosure under IAS 10.
- The auditor should discuss the event with management and request that the financial statements are amended to include appropriate disclosure of the fire and its financial impact. This ensures compliance with IAS 10 and that users are not misled.
- The auditor should obtain evidence of the event, such as insurance reports, repair estimates, and management assessments, to verify the accuracy and completeness of the disclosure. This supports the reliability of the information presented.
- If management agrees to amend the financial statements, the auditor should perform audit procedures on the revised disclosures and issue a new auditor's report reflecting the updated financial statements.
- If management refuses to amend the financial statements and the auditor's report has not yet been issued, the auditor should modify the audit opinion to reflect the material misstatement arising from non-disclosure.
- If the auditor's report has already been provided to management, the auditor should notify management and those charged with governance not to issue the financial statements until amendments are made.
- If the financial statements are issued despite the auditor's request, the auditor should take appropriate action to prevent reliance on the auditor's report, which may include seeking legal advice.
- The auditor should also consider whether the event casts doubt on the going concern assumption and whether additional disclosures or modifications to the audit opinion are required.

QUESTION THREE

Marking Guide:

QN	Description	Marks	Total Marks
a	The audit procedures you would perform in relation to the loan from RUBANGURA Bank Ltd: Good answers should be technically correct, well discussed, and also tailored to the case study. Generic answers should be awarded half marks.		
	Award 2 marks for any correct and well explained answer. Maximum of any 5 valid answers. Other valid answers provided by candidates and not in this marking guide should be considered (5 answers x 2 marks = 10 marks)	10	10

QN	Description	Marks	Total Marks
b (i)	Level of assurance to be provided on the prospective financial information and draft the wording of the conclusion to be included in the assurance report:		
	Award 1 mark for a correct level of assurance = limited (negative) assurance	1	
	Award 2 marks for the correct wording = “Based on our examination of the evidence supporting the assumptions, nothing has come to our attention…"	2	3
b (ii)	Procedures you would undertake to provide assurance on the profit forecast of NGAGI TOURS & TRAVEL for the year ending 31 December 2026: Good answers should be technically correct, well discussed, and also tailored to the case study. Generic answers should be awarded half marks.		
	Award 2 marks for any correct and well explained answer. Maximum of any 6 valid answers. Other valid answers provided by candidates and not in this marking guide should be considered (6 answers x 2 marks = 12 marks)	12	12
Total Marks			**25**

Model Answers:

(a) Describe the audit procedures you would perform in relation to the loan from RUBANGURA Bank Ltd.

Loan agreement inspection (ISA 500):

Inspect the loan agreement from RUBANGURA Bank Ltd to confirm the principal amount, interest rate, repayment terms, and covenants, ensuring that the loan has been accurately recorded and disclosed in the financial statements.

Bank confirmation (ISA 505):

Obtain a direct confirmation from RUBANGURA Bank Ltd to verify the outstanding loan balance at year-end, ensuring completeness and existence of the liability.

Interest expense recalculation:

Recalculate the interest expense for the year, including accrual for the final quarter, to confirm that finance costs are complete and accurately recorded in accordance with IFRS requirements.

Interest accrual verification:

Inspect post-year-end payments and supporting schedules to confirm that interest relating to the final quarter has been accrued, ensuring expenses are recognised in the correct period (cut-off).

Classification of loan (IAS 1):

Review the loan repayment schedule to determine whether any portion should be classified as current, ensuring appropriate presentation between current and non-current liabilities.

Covenant compliance review:

Recalculate the current ratio and debt-to-equity ratio using year-end figures to assess compliance with loan covenants and determine whether any breach requires disclosure or reclassification of the loan.

Collateral verification:

Inspect documentation (yellow cards) relating to the safari vehicles pledged as collateral and verify ownership through asset registers, ensuring that the security disclosed is valid and appropriately recorded.

Disclosure review (IFRS 7 / IAS 1):

Review the financial statement disclosures relating to the loan to ensure that all relevant terms, conditions, and risks are adequately disclosed in accordance with financial reporting standards.

(b) Using prospective financial information in the case study, answer the following questions:

(i) Advise on the level of assurance to be provided on the prospective financial information and draft the wording of the conclusion to be included in the assurance report.

The appropriate level of assurance for prospective financial information is **limited (negative) assurance** in accordance with **ISAE 3400 (or ISAE 3000 Revised)**.

Conclusion wording: "Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that the assumptions do not 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 the applicable financial reporting framework."

(ii) Describe the procedures you would undertake to provide assurance on the profit forecast of NGAGI TOURS & TRAVEL for the year ending 31 December 2026.

Evaluate assumptions for reasonableness (ISAE 3400):

Assess the key assumptions, such as the 90% increase in tourist arrivals, by comparing them with historical trends and industry data to determine whether they are realistic and supportable.

Compare forecast to historical performance:

Compare 2026 forecast figures with 2025 actual results to identify significant variances, such as the sharp increase in revenue and profit, and assess whether these are justified.

Corroborate revenue growth assumptions:

Obtain evidence of marketing plans, bookings, or contracts to support the projected increase in tourism activity, ensuring that revenue projections are not overly optimistic.

Assess cost behaviour assumptions:

Evaluate the assumption that operating costs will remain relatively stable despite significant revenue growth, as this may indicate understatement of expenses and overstatement of profit.

Review finance cost assumptions:

Recalculate expected finance costs based on existing loan terms and assess whether the projected reduction to FRW 2,500,000 is reasonable given the outstanding loan balance.

Inspect new business initiatives:

Review documentation supporting the new luxury tour package, such as feasibility studies or initial bookings, to determine whether the assumed immediate success is realistic.

Sensitivity analysis:

Perform sensitivity analysis on key variables, such as tourist numbers and pricing, to assess how changes in assumptions impact the forecast and identify areas of high estimation uncertainty.

Check arithmetic accuracy:

Recalculate the forecast figures to ensure mathematical accuracy and internal consistency of the financial information presented.

Consider consistency of assumptions:

Assess whether assumptions are internally consistent, for example, whether increased revenue logically aligns with cost structures and operational capacity.

Obtain written representations:

Obtain written representations from management confirming the completeness and reasonableness of the assumptions used in preparing the forecast.

Evaluate presentation and disclosure:

Review the presentation of the forecast to ensure that key assumptions are clearly disclosed and that users understand the inherent uncertainty associated with prospective financial information.

Consider external factors:

Assess external factors such as tourism trends in Rwanda, economic conditions, and potential risks (e.g., vehicle breakdowns), ensuring that the forecast reflects a balanced and realistic outlook.

QUESTION FOUR

Marking Guide:

QN	Description	Marks	Total Marks
a	Performance indicators that could reflect the extent to which EXCELLENT ACADEMY's social and environmental responsibilities are being met, and the evidence that should be available to provide assurance on their accuracy: Good answers should be technically correct, answered in a table, and also tailored to the case study. Generic answers should be awarded half marks.		
	Award 1 mark for any 1 valid indicator and 1 mark for a corresponding valid piece of evidence. Maximum of any 5 valid answers. Other valid answers provided by candidates and not in this marking guide should be considered (5 answers x 2 marks = 10 marks)	10	10
b	Corporate governance issues in the case study and recommend improvements: Good answers should be technically correct, answered in a table, and also tailored to the case study. Generic answers should be awarded half marks.		
	Award 1 mark for any 1 valid issue and 1 mark for a corresponding valid recommendation. Maximum of any 4 valid answers. Other valid answers provided by candidates and not in this marking guide should be considered (4 answers x 2 marks = 08 marks)	8	8
c (i)	Level of assurance that would be provided in this engagement:		
	Award 1 mark for a correct level of assurance = No assurance given	1	1
c (ii)	Recommend the procedures that should be performed to determine whether expense fraud has taken place: Good answers should be technically correct, answered in a table, and also tailored to the case study. Generic answers should be awarded half marks.		
	Award 1 mark for any 1 valid recommended procedure. Maximum of any 6 valid answers. Other valid answers provided by candidates and not in this marking guide should be considered (6 answers x 2 marks = 06 marks)	6	6
Total Marks			**25**

Model Answers:

(a) Suggest performance indicators that could reflect the extent to which EXCELLENT ACADEMY's social and environmental responsibilities are being met, and the evidence that should be available to provide assurance on their accuracy. *Note: Tabulate your answer.*

No.	Social/Environmental Commitment	Performance Indicator	Evidence
1	Reduction of electricity consumption by 20% through adoption Solar Energy	% reduction in electricity costs	Utility bills before and after solar installation
2	To maintain the pass rate at 90% in the National Exam	Student pass rate (%)	National exam results and academic records
3	Scholarship Provision to at leat 10% of students	% of students on scholarship	Scholarship register and fee records
4	To ensure safe and hygienic boarding facilities	Number of sanitation incidents resolved within target time	Maintenance logs and incident reports
5	Tree planting	Number of trees planted annually	Environmental reports and physical inspection
6	To maintain teacher-to-student ratio of 1:25	Teacher-to-student ratio	HR records and student enrolment data
7	Ensure timely payment of staff salaries	% of salaries paid on time	Payroll records and bank payment confirmations

(b) Identify corporate governance issues in the case study and recommend improvements. *Note: Tabulate your answer.*

No.	Corporate Governance Issue	Recommendation
1	Lack of board independence as founder is Chairperson	Appoint independent non-executive directors to improve oversight and objectivity
2	No audit committee in place	Establish an audit committee to oversee financial reporting and internal controls
3	Absence of internal audit function	Introduce internal audit to strengthen risk management and control systems
4	Procurement controlled by Head Teacher without tendering	Implement formal procurement policies including competitive bidding processes

No.	Corporate Governance Issue	Recommendation
5	Informal staff recruitment practices	Develop formal HR policies with documented recruitment procedures
6	Manual payroll with no independent review	Introduce payroll controls including segregation of duties and review mechanisms

Each of the above weaknesses indicates poor adherence to good corporate governance practices as outlined in governance frameworks, increasing the risk of errors and fraud. Implementing the recommendations would strengthen accountability, transparency, and internal control systems.

(c) With reference to the suspected fraud:

(i) State the level of assurance that would be provided in this engagement.

No assurance given as this will be conducted as an agreed upon procedure assignment.

(ii) Recommend the procedures that should be performed to determine whether expense fraud has taken place.

- Inspect supplier master records to verify whether the supplier is authorised, ensuring that payments were made to legitimate vendors.
- Examine invoices and supporting delivery notes to confirm that goods were received, ensuring occurrence of transactions.
- Perform analytical procedures to identify duplicate or unusual invoice patterns, detecting potential fraudulent duplication.
- Physically inspect goods where possible to verify existence and confirm that purchases actually occurred.
- Review approval workflows to assess whether proper authorisation controls were bypassed, indicating control weaknesses.
- Interview relevant staff and management to gather explanations and identify inconsistencies in procurement processes.
- Trace payments to bank statements to confirm whether funds were transferred to legitimate accounts, ensuring accuracy and preventing misappropriation.

- Each of these procedures is designed to gather sufficient appropriate evidence in line with auditing and forensic investigation principles to determine whether fraud has occurred.

End of question paper