CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.2 AUDIT PRACTICE AND ASSURANCE SERVICES

DATE: FRIDAY, 29 MAY 2026

INSTRUCTIONS:

1. Time allowed: **3 hours and 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

SECTION A

QUESTION ONE

Background Information:

IHOGOZA Ltd is a Rwandan-based company involved in the manufacturing and sale of construction materials including cement, concrete products, roofing materials, and prefabricated building components. Its head office is located in Kigali, and it operates several manufacturing plants across Rwanda.

The company has experienced significant growth in recent years due to increased infrastructure development in the country. IHOGOZA Ltd prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS).

Group Structure:

IHOGOZA Ltd has the following subsidiaries as at 31 December 2025:

Subsidiary Name	Nature of Business	Shareholding	Auditor
Kigali Bricks Ltd	Manufacture of clay bricks	100%	ABC & Co.
Akagera Aggregates Ltd	Quarrying and supply of aggregates	80%	Eastern Auditors Ltd
Nyungwe Property Holdings Ltd	Investment in commercial properties	70%	Highland Associates

IHOGOZA Ltd acquired its interest in Akagera Aggregates Ltd in January 2023 and recognised goodwill on acquisition. The non-controlling interest is measured using the proportionate share of net assets method. Nyungwe Property Holdings Ltd owns several commercial buildings which are leased out to third parties. The group uses different component auditors for its subsidiaries. The group audit is performed by Mugenzi & Partners Ltd, based in Kigali.

Financial Information:

Extracts from the consolidated financial statements of IHOGOZA Ltd are shown below:

Consolidated Statement of Profit or Loss (Extract)

Item	2025 (FRW“000”)	2024 (FRW“000”)
Revenue	48,500,000	38,200,000
Cost of sales	(32,700,000)	(24,800,000)
Gross profit	15,800,000	13,400,000
Operating expenses	(10,900,000)	(8,600,000)
Profit before tax	4,900,000	4,800,000

Consolidated Statement of Financial Position (Extract)

Item	2025 (FRW"000")	2024 (FRW"000")
Total assets	72,000,000	60,500,000
Property, plant and equipment	38,500,000	30,200,000
Investment property	9,800,000	6,200,000
Goodwill	4,200,000	4,200,000
Inventory	8,600,000	6,100,000
Trade receivables	6,700,000	5,000,000
Development costs	2,400,000	1,200,000

Additional Information:

1. Revenue and Contracts

IHOGOZA Ltd has entered into several long-term contracts for the supply of construction materials to large infrastructure projects. Revenue from these contracts is recognised based on management's assessment of stage of completion. During the year, a significant contract worth FRW 8 billion was completed near year-end. Management recognised the full revenue in December 2025.

2. Inventory

Inventory includes raw materials, work-in-progress, and finished goods. A large portion of inventory is held at multiple warehouse locations across the country. During the year, management changed its valuation method for finished goods from standard costing to weighted average cost. There were also reports of slow-moving inventory relating to roofing materials due to reduced demand in certain regions. A year-end inventory count is scheduled for 31 December 2025. However, some warehouses located in remote areas may not be attended by the audit team.

3. Property, Plant and Equipment (PPE)

IHOGOZA Ltd acquired new manufacturing equipment worth FRW 9 billion during the year. Some of this equipment was financed through a lease arrangement. Depreciation is charged on a straight-line basis. Management reassessed the useful lives of certain machinery during the year, resulting in lower depreciation charges.

4. Investment Property

Nyungwe Property Holdings Ltd measures its investment properties using the fair value model. The fair value as at 31 December 2025 was determined by an external valuer. The valuation resulted in a gain of FRW 1.5 billion recognised in profit or loss. The valuer's report included a disclaimer that market data for comparable properties was limited.

5. Goodwill

Goodwill arising from the acquisition of Akagera Aggregates Ltd has not been impaired since acquisition. Management performed an impairment review and concluded that no impairment was necessary. The quarrying business has experienced fluctuating demand due to changes in construction activity.

6. Development Costs

IHOGOZA Ltd has been developing an internal software system to manage production and inventory. During the year, FRW 1.2 billion of development costs were capitalised, bringing the total to FRW 2.4 billion. Management believes that the project meets the criteria for capitalisation under IAS 38.

7. Government Grant

The company received a government grant of FRW 2 billion during the year to support local manufacturing under a national industrialisation program. The grant has been recognised as deferred income and is being amortised over 5 years.

8. Component Auditors and Related Parties

Each subsidiary is audited by different firms as indicated above. The group audit team plans to rely on the work of component auditors. There are intercompany transactions between IHOGOZA Ltd and its subsidiaries, including supply of raw materials and management fees. Some transactions are yet to be fully reconciled at year-end.

Required:

a) **Discuss the matters that Mugenzi & Partners Ltd should consider before accepting the engagement to audit the consolidated financial statements of IHOGOZA Ltd.** (10 Marks)

b) **Identify and discuss 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.** (20 Marks)

c) **Explain the matters that should be communicated by the group auditor to the component auditors in accordance with auditing standards.** (10 Marks)

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

   i) **Inventory.** (6 Marks)

   ii) **Investment property.** (4 Marks)

(Total: 50 Marks)

SECTION B

QUESTION TWO

MWEZI Ltd is an automotive garage located in Kimironko, Kigali. The company provides vehicle repair and maintenance services, including engine diagnostics, bodywork, and spare parts sales. The company has experienced rapid growth in recent years due to increased vehicle ownership in Kigali.

The draft financial statements for the year ended 31 December 2025 show:

- Revenue: FRW 18,500,000
- Profit before tax: FRW 2,200,000
- Total assets: FRW 12,000,000

The audit is nearing completion, and several issues have been identified:

1. A major customer owing FRW 600,000 has gone into liquidation shortly after year-end. No allowance has been made in the financial statements.
2. Inventory includes spare parts valued at FRW 900,000, some of which are obsolete. Management has refused to write these down, arguing they may still be used.
3. The auditor was unable to attend the year-end inventory count due to late appointment and could not perform alternative procedures for inventory valued at FRW 2,500,000.
4. The company has been involved in a lawsuit, and legal advice indicates a probable liability of FRW 1,800,000. No provision has been recognised.
5. The financial statements have been prepared on a going concern basis, but the company has suffered significant cash flow problems and has no confirmed financing arrangements.
6. Depreciation on garage equipment amounting to FRW 300,000 has not been charged in the current year.
7. A fire destroyed one of the garage workshops on 15 February 2026, causing damage estimated at FRW 3,000,000. This was shortly before financial statements are issued. The financial statements have not been adjusted or disclosed.

Required:

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. (1 Mark)

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.* (14 Marks)

b) Discuss the audit procedures your audit firm should perform in relation to the fire that occurred on 15 February 2026. (10 Marks)

(Total: 25 Marks)

QUESTION THREE

NGAGI TOURS & TRAVEL is a tourism company based in Musanze, Rwanda, offering gorilla trekking packages, safari tours, and transport services across Rwanda. The company has experienced steady growth due to increased international tourism but faces seasonal fluctuations and high operational costs.

The draft financial statements for the year ended 31 December 2025 show:

- Revenue: FRW 9,800,000
- Profit/loss before tax: FRW (3,400,000)
- Total assets: FRW 55,000,000

You are the professional accountant engaged to perform audit and advisory services for NGAGI TOURS & TRAVEL.

Loan from RUBANGURA Bank Ltd

On January 1, 2025, NGAGI TOURS & TRAVEL secured a long-term loan amounting to FRW 40,000,000 from RUBANGURA Bank Ltd. The purpose of this financing was to support the acquisition of new safari vehicles for the company's operations.

Regarding the financial terms, the loan carries an annual interest rate of 12%, with interest payments due on a quarterly basis. The repayment period extends over five years, giving the company sufficient time to manage its obligations while growing its fleet.

As security for the loan, two of the safari vehicles purchased during the year were pledged as collateral. In addition to this, the bank imposed specific financial covenants that NGAGI TOURS & TRAVEL must comply with throughout the loan tenure. These covenants require the company to maintain a current ratio of no less than 1.5:1, ensuring adequate short-term liquidity, while also keeping its debt-to-equity ratio within a maximum threshold of 2:1 to safeguard against excessive financial leverage.

The finance director has recorded the loan at FRW 40,000,000 but has not accrued interest for the last quarter of the year. In addition, no assessment has been made as to whether the company has complied with the loan covenants at year-end.

Profit Forecast for 2026 (Prepared for the Bank)

To support an application for an additional loan facility, management has prepared a profit forecast for the year ending 31 December 2026:

Item	**2025 Actual (FRW)**	**2026 Forecast (FRW)**
Revenue	9,800,000	22,000,000
Cost of sales	(5,200,000)	(10,000,000)
Gross profit	4,600,000	12,000,000
Operating expenses	(3,200,000)	(4,000,000)
Finance costs	(4,800,000)	(2,500,000)
Profit/(loss) before tax	(3,400,000)	5,500,000

Key assumptions used by management include:

- A 90% increase in tourist arrivals due to aggressive marketing campaigns
- No significant increase in operating costs despite expansion
- A reduction in finance costs due to "better cash flow management"
- No vehicle breakdowns or major repairs in 2026
- Immediate success of a new luxury tour package launched in January 2026

Required:

a) **Describe the audit procedures you would perform in relation to the loan from RUBANGURA Bank Ltd.** (10 Marks)

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.** (3 Marks)

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.** (12 Marks)

(Total: 25 Marks)

QUESTION FOUR

EXCELLENT ACADEMY is a private secondary school located in Nyagatare District, Rwanda. The school offers both day and boarding services and has approximately 600 students. It is governed by a Board of Directors and managed by a Head Teacher supported by administrative and finance staff.

The school is preparing to publish its Annual Report for the year ended 31 December 2025, which will include financial statements and a section on social and environmental responsibilities.

You are the professional accountant engaged to provide assurance and advisory services to EXCELLENT ACADEMY.

Extract from Annual Report – Social & Environmental Responsibilities

The school has committed to the following:

1. Reduce electricity consumption by 20% through solar energy adoption
2. Maintain a student pass rate of at least 90% in national exams
3. Provide scholarships to at least 10% of students
4. Ensure safe and hygienic boarding facilities
5. Promote environmental sustainability through tree planting initiatives
6. Maintain teacher-to-student ratio of 1:25
7. Ensure timely payment of staff salaries

Reported incidents during the year include:

- Solar installation was delayed, and electricity costs increased by 15%
- Student pass rate dropped to 82%

- Only 5% of students received scholarships due to funding constraints
- A dormitory sanitation issue was reported and resolved after two weeks
- 300 trees were planted during the year
- Teacher shortages resulted in a ratio of 1:35
- Salaries were delayed by up to one month on three occasions

Governance Structure

The Board consists of five members, including the founder who also acts as Chairperson. The Head Teacher attends all board meetings and is heavily involved in strategic decisions.

The school does not have an internal audit function. Financial reporting is handled by a junior accountant, and there is no audit committee. Procurement decisions are made by the Head Teacher without formal tender processes.

Staff recruitment is largely informal, with limited documentation. Payroll is processed manually, and no independent review is performed. There have been delays in producing financial statements.

Suspected Expense Fraud – Procurement Department

During the year, concerns were raised regarding procurement expenses:

- Payments totalling FRW 2,400,000 were made to a supplier not on the approved supplier list
- Several invoices lacked supporting delivery notes
- The procurement officer approved and processed the payments
- Some invoices appear duplicated with slight variations in amounts
- Goods relating to certain invoices cannot be physically verified
- The procurement officer has been absent from work since the issue was raised

Required:

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.* (10 Marks)

b) **Identify corporate governance issues in the case study and recommend improvements.** *Note: Tabulate your answer.* (8 Marks)

c) With reference to the suspected fraud:

i) **State the level of assurance that would be provided in this engagement.** (1 Mark)

ii) **Recommend the procedures that should be performed to determine whether expense fraud has taken place.** (6 Marks)

(Total: 25 Marks)

End of question paper