CERTIFIED PUBLIC ACCOUNTANT

TECHNICAL LEVEL EXAMINATIONS

AA1.4 AUDIT AND ASSURANCE

DATE: FRIDAY, 29 MAY 2026

INSTRUCTIONS:

1. Time allowed: **3 hours**
2. The examination has **50 compulsory** multiple-choice questions equal to **2 marks** each.
3. Select the letter corresponding to the correct option, unless otherwise stated.
4. Where a question involves computation, candidates may find helpful to the relevant calculations before choosing the correct answer letter. However, no marks will be awarded for any written workings.
5. The question paper should not be taken out of the examination room.

SECTION A

QUESTION ONE

An audit partner at KJR audit firm has been engaged to audit the financial statements of Kigali Tech Ltd for the year ended 31 December 2025. During the same engagement period, the partner's firm prepares the company's management accounts and assists management in drafting the statutory financial statements that will subsequently be audited.

Which combination of threats to auditor independence is most directly created by this arrangement?

A Advocacy threat and intimidation threat
B Self-review threat and management threat
C Familiarity threat and self-interest threat
D Self-interest threat and advocacy threat

(2 Marks)

QUESTION TWO

During an audit of Kigali Breweries Ltd, the auditor discovers evidence suggesting that the company has been systematically under-remitting employee income tax deductions (Pay As You Earn) to the Rwanda Revenue Authority for the past three years. The total amount involved is material. Management, when confronted, instructs the auditor to treat the matter as strictly confidential.

According to the ICPAR Code of Ethics and ISA 250, which of the following most accurately describes the auditor's obligations in these circumstances?

A The auditor must maintain absolute confidentiality, as the duty of confidence to the client overrides any reporting obligation in all circumstances
B The auditor may disclose the matter to the Rwanda Revenue Authority only if the client provides explicit written consent
C The auditor should consider whether a legal or professional duty to disclose exists, seek legal advice if necessary, and may be required to report the non-compliance to the appropriate authority
D The auditor has no obligation to report the matter, as tax compliance is entirely management's responsibility and outside the scope of the financial statement audit

(2 Marks)

QUESTION THREE

Rwandan Commercial Bank (RCB) extended a significant overdraft facility to Gasabo Manufacturing Ltd. The overdraft agreement explicitly required Gasabo to provide audited annual financial statements to RCB each year as a condition of the facility. The auditor of Gasabo, while aware of the overdraft arrangement, did not issue any disclaimer to RCB. It subsequently emerged that the financial statements contained a material misstatement caused by management fraud, which the auditor failed to detect.

Based on the legal principles established in Bank of Scotland v Bannerman [2002] and the duty of care framework, which of the following conclusions is most defensible?

A The auditor owes no duty of care to RCB, since there is no direct contract between the auditor and the bank
B The auditor owes a duty of care to all parties who might foreseeably suffer a loss as a result of relying on the financial statements
C The auditor is automatically liable to RCB because fraud was involved, regardless of whether a duty of care was established
D The auditor is likely to owe a duty of care to RCB, given that the auditor was aware that the bank would specifically rely on the audited statements as a condition of the overdraft and issued no disclaimer

(2 Marks)

QUESTION FOUR

The Board of Directors of Muhanga Agri-Products Ltd is dissatisfied with the audit firm currently appointed as the company's external auditor. The Board wishes to remove the auditor before the end of the current audit engagement without consulting the shareholders.

According to the Rwanda Companies Act 2021, which of the following statements correctly describes the legal requirements for the removal of an auditor?

A The Board of Directors may remove the auditor at any time by passing a board resolution, provided that at least ten days' notice is given to the auditor
B The auditor may be removed only by an ordinary resolution passed at a shareholders' meeting, and the auditor must first be given ten days' notice and the opportunity to make representations to shareholders
C The auditor may be removed by mutual written agreement between the Board of Directors and the audit firm, without requiring shareholder approval
D The Registrar of Companies must approve any removal of an auditor before the end of the appointed term

(2 Marks)

QUESTION FIVE

Consider the following statements about audit engagement letters:

1) The primary purpose of an engagement letter is to minimise the risk of misunderstanding between the auditor and the client regarding their respective responsibilities, and to confirm the formal acceptance of the engagement.
2) Under ISA 210, the engagement letter must be re-signed by both the auditor and the client at the commencement of every audit engagement without exception, even where there has been no change in the terms of the engagement.
3) The engagement letter should state that management is responsible for the prevention and detection of fraud, and that the audit may not detect all material misstatements due to the inherent limitations of the audit.
4) The engagement letter is a legally binding contract between the auditor and the client that can be used to define the scope of the audit and clarify the basis on which audit fees will be charged.

Which of the above statements are correct?

A 1 and 2 only
B 1, 3, and 4 only
C 2 and 3 only
D 1, 2, 3, and 4

(2 Marks)

QUESTION SIX

During audit planning, the auditor of a newly listed company in Rwanda assesses the following: (i) the company operates in a highly complex and volatile sector with significant estimation uncertainty; (ii) initial testing reveals that the company's internal controls are poorly designed and inconsistently applied; and (iii) the audit firm's methodology requires that overall audit risk be maintained at 5%.

Given the above risk assessment, which of the following statements about the required level of detection risk and the audit response is correct?

A Since both inherent and control risks are high, the auditor must set detection risk at a high level to compensate and reduce the volume of substantive testing required
B Since both inherent and control risks are high, the auditor must set detection risk at a low level, which requires increasing the volume and rigour of substantive testing performed
C Since inherent risk is fixed by the nature of the entity, only control risk affects the level of detection risk required
D The auditor can eliminate the need for substantive testing entirely if sufficient tests of controls are performed to reduce control risk to an acceptably low level

(2 Marks)

QUESTION SEVEN

The draft financial statements of Nyungwe Forest Lodge Ltd for the year ended 31 December 2025 show a profit before tax of FRW 2,800,000. The auditor's overall materiality has been set at FRW 140,000, based on 5% of profit before tax. During audit fieldwork, the following two items are identified:

Item 1: A misclassification of FRW 35,000 of director remuneration, recorded as an operating expense instead of being disclosed separately as required by the Rwanda Companies Act 2021.
Item 2: An arithmetic error of FRW 28,000 in the depreciation calculation for plant and equipment.

How should the auditor assess the materiality of each item?

A Neither item is material, as both amounts fall well below the overall materiality threshold of FRW 140,000
B Item 1 is qualitatively material because it relates to a statutory disclosure requirement, regardless of its monetary value; Item 2 is not material as it falls below the overall materiality threshold
C Both items are material because they were identified during fieldwork and should therefore be corrected regardless of their individual amounts

D Item 2 is material because errors in depreciation calculations are inherently more significant than misclassifications; Item 1 is not material

(2 Marks)

QUESTION EIGHT

Consider the following statements about professional scepticism and professional judgement, as required by ISA 200:

1) Professional scepticism requires the auditor to assume that management is dishonest and that all management representations should be treated as unreliable unless independently corroborated.
2) Professional scepticism involves maintaining a questioning mind, remaining alert to conditions that may indicate possible misstatement due to fraud or error, and critically assessing audit evidence.
3) Professional judgement involves the application of relevant training, knowledge and experience in making informed decisions about the appropriate courses of action in the circumstances of the audit.
4) Once the auditor has obtained written representations from management, professional scepticism is no longer required in relation to the matters covered by those representations.

Which of the above statements correctly describe professional scepticism or professional judgement as defined in ISA 200?

A 1 and 3 only
B 2 and 3 only
C 1, 2, and 3 only
D 2, 3, and 4 only

(2 Marks)

QUESTION NINE

An investor is reviewing the audited financial statements of a company before making a significant investment decision. The investor states: "Since the financial statements have been audited and an unmodified opinion issued, I am guaranteed that the financial statements are completely accurate and contain no errors whatsoever."

Which of the following most accurately explains why this statement is incorrect?

A An unmodified opinion guarantees that the financial statements are free from all misstatements, whether material or immaterial, but it does not guarantee that fraud has been detected
B An audit provides only reasonable assurance, not absolute assurance that financial statements are free from material misstatement, due to inherent limitations including the use of sampling, the reliance on judgement, and the persuasive rather than conclusive nature of most audit evidence
C An audit opinion is valid only at the date of issue and provides no assurance regarding events occurring after the audit report date
D The auditor's responsibility is limited to verifying numerical accuracy; the auditor provides no assurance regarding the appropriateness of the accounting policies applied

(2 Marks)

QUESTION 10

ABC Ltd uses the First-In, First-Out (FIFO) method for inventory valuation. At the start of the financial year, the company held 500 units of Product X at a cost of FRW 50 per unit. The following transactions took place during the year:

Transaction	Units	Cost / Selling Price
Purchase 1	1,000 units	FRW 55 per unit
Purchase 2	500 units	FRW 60 per unit
Sale 1	1,200 units	Sold at FRW 80 per unit
Sale 2	500 units	Sold at FRW 85 per unit

Using the FIFO method, what is the value of closing inventory to be reported in the financial statements, and what is the cost of goods sold for the year?

A Closing inventory: FRW 18,000; Cost of goods sold: FRW 92,000
B Closing inventory: FRW 18,000; Cost of goods sold: FRW 80,000
C Closing inventory: FRW 30,000; Cost of goods sold: FRW 75,000
D Closing inventory: FRW 25,000; Cost of goods sold: FRW 82,500

(2 Marks)

QUESTION 11

Consider the following statements about the five components of the COSO internal control framework, as described in ISA 315:

1) The control environment component encompasses management's attitude toward internal control, the integrity and ethical values of key personnel, and the commitment to competence, it sets the overall tone of the organisation.
2) The risk assessment component involves the entity's process for identifying and managing business risks, which assists the auditor in identifying risks of material misstatement in the financial statements.
3) Control activities are the policies and procedures that help ensure that management directives are carried out; examples include authorisations, approvals, reconciliations, and segregation of duties.
4) The monitoring component of internal control refers to the process by which management communicates control-related information to staff through manuals, memoranda, and training programmes.

Which of the above statements correctly describe components of the COSO internal control framework?

A 1, 2, and 3 only
B 1, 3, and 4 only
C 2 and 4 only
D 1, 2, 3, and 4

(2 Marks)

QUESTION 12

During a review of the internal controls of Musanze Dairy Ltd, the auditor discovers that the same accounts payable clerk is responsible for: (i) approving purchase orders; (ii) receiving and matching supplier invoices; (iii) recording invoices in the purchase ledger; and (iv) preparing and releasing payment runs to suppliers.

Which internal control principle is most severely breached by this arrangement, and what is the primary risk that arises as a result?

A The principle of authorisation is breached, creating a risk that unauthorised expenditure is incurred without management approval
B The principle of segregation of duties is breached, creating a risk that the clerk could commit and conceal fraud or error across the entire purchase-to-payment cycle without detection
C The principle of physical safeguarding of assets is breached, creating a risk that inventory could be misappropriated by the clerk
D The principle of independent verification is breached, creating a risk that management is unaware of the volume of transactions processed by the clerk

(2 Marks)

QUESTION 13

Consider the following statements about IT controls in a computerised accounting environment, as discussed under ISA 315:

1) General IT controls include controls over IT operations, access to programs and data, programme change management, and systems acquisition and development, they provide the foundation for the reliability of application controls.
2) Application controls operate at the business process level and are designed to ensure the completeness, accuracy, authorisation, and validity of data captured, processed, and reported by specific applications.
3) If general IT controls are found to be weak, the auditor can still rely on application controls as these operate independently of the general IT environment and are not affected by weaknesses in general controls.
4) Input controls, processing controls, and output controls are all examples of application controls and are designed to address risks at different stages of data processing.

Which of the above statements about IT controls are correct?

A 1 and 2 only
B 1, 2, and 4 only
C 2 and 3 only
D 1, 3, and 4 only

(2 Marks)

QUESTION 14

A senior audit is planning the documentation of their understanding of Rubavu Fishing Co Ltd's internal control system. The entity has multiple processing departments with complex flows of documents between them. Management has also provided a written description of how sales orders are processed, from receipt through to dispatch and invoicing.

Which combination of documentation methods would be most appropriate for the senior audit to use to supplement the written description already provided by management?

A A checklist, to confirm the presence or absence of specific control procedures, and an organisation chart, to show formal reporting lines
B A flowchart, to map the flow of documents and controls through the sales order process, and an organisation chart, to identify key personnel and their roles
C Narrative notes only, as they are the most detailed form of documentation and eliminate the need for any visual representation
D A flowchart and a checklist, as organisation charts are too limited in scope to be useful in documenting a complex multi-department process

(2 Marks)

QUESTION 15

The external auditor of Kicukiro Health Services Ltd is assessing the entity's internal audit function. The internal audit department conducts regular reviews of internal controls, performs reconciliations of key account balances, and reports its findings directly to the audit committee. The external auditor is considering the extent to which the work of internal audit may be used.

Which of the following most accurately describes the relationship between a strong internal audit function and the external auditor's work, in accordance with ISA 610?

A The external auditor may use the work of internal audit to reduce the extent of external audit procedures, but cannot use internal auditors to perform external audit procedures on behalf of the external auditor without appropriate oversight
B A strong internal audit function eliminates the need for the external auditor to assess control risk, as this responsibility is delegated to the internal auditors
C A strong internal audit function allows the external auditor to reduce the scope of the audit and issue the audit opinion based primarily on internal audit findings, without performing independent verification
D The external auditor is required by ISA 610 to use the work of the internal audit function in all engagements where an internal audit department exists, regardless of its assessed quality or objectivity

(2 Marks)

QUESTION 16

An auditor is gathering evidence about the year-end cash and bank balance for Gisozi Retail Ltd. The following types of evidence are available:

1) A direct bank confirmation letter sent by the bank directly to the auditor in response to the auditor's written request.

2) A photocopy of the bank statement for December 20X5, provided by the client's finance team.
3) An oral assurance from the Finance Director, who confirms the bank balance verbally during a management interview.
4) The bank reconciliation prepared by the client's management accountant, which has been reviewed and signed off by the Finance Director.

Ranking these from most to least reliable, which sequence is correct according to the audit evidence reliability principles in ISA 500?

A 1 → 4 → 2 → 3
B 1 → 2 → 4 → 3
C 4 → 1 → 2 → 3
D 2 → 1 → 4 → 3

(2 Marks)

QUESTION 17

Which of the following sampling methods ensures that each item in the population has an equal chance of being selected?

A Stratified sampling
B Haphazard sampling
C Random sampling
D Cluster sampling

(2 Marks)

QUESTION 18

What is the confidence level in the context of audit sampling?

A The assurance that the auditor has in the sample results representing the entire population
B The proportion of sample errors that can be accepted
C The percentage of the population that must be tested
D The minimum threshold of monetary misstatements

(2 Marks)

QUESTION 19

After completing tests of controls over the payroll system of Bugesera Agricultural Ltd, the auditor concludes that payroll controls are well-designed and have been operating effectively throughout the year. The auditor is now considering the extent of further audit work required on the year-end payroll liability balance.

Which of the following most accurately reflects the correct application of ISA 330 in these circumstances?

A The auditor may reduce but not eliminate substantive procedures on the payroll balance; regardless of the results of controls testing, some substantive procedures must always be performed on material balances

B Because controls have been found to be effective, the auditor need not perform any substantive procedures on the payroll balance, as tests of controls alone provide sufficient appropriate audit evidence
C The auditor should reduce substantive procedures to zero and rely entirely on the results of controls testing, as this is the most efficient audit approach when controls are effective
D The auditor should increase substantive procedures because effective controls indicate that management places high reliance on the system, increasing the risk of material misstatement

(2 Marks)

QUESTION 20

During the audit of Gisenyi Trading Ltd for the year ended 31 December 2055, the auditor is testing accounts receivable. The auditor selects a sample of balances recorded in the year-end receivables ledger and sends confirmation letters to the relevant customers requesting confirmation of the amounts outstanding.

Which financial statement assertion does this procedure primarily address, and why?

A Completeness: because the procedure tests whether all receivables that should be recorded are included in the ledger
B Valuation: because customer confirmation letters confirm that the amounts recorded can be recovered and are therefore correctly valued
C Existence: because the procedure tests whether the receivable balances recorded in the ledger actually exist by tracing from the ledger outward to an independent external source
D Rights and obligations: because the confirmation establishes that the company has the legal right to collect the amounts recorded

(2 Marks)

QUESTION 21

An auditor is designing procedures to test the completeness of accounts payable for Musanze Supplies Ltd at 31 December 2025. The auditor is aware that management may have incentives to understate liabilities in order to improve the reported net assets position.

Which of the following audit procedures most directly tests the completeness assertion for accounts payable?

A Selecting a sample of balances from the accounts payable ledger and agreeing each to the supporting supplier invoice, tracing from the ledger to the source document
B Sending confirmation requests to a sample of suppliers listed in the accounts payable ledger to verify the outstanding balances at the year end
C Reviewing goods received notes and supplier invoices received in January 2026 to identify any liabilities that relate to the period ended 31 December 2025 but have not been recorded
D Comparing the total accounts payable balance as a percentage of purchases with the prior year ratio and investigating any significant variances

(2 Marks)

QUESTION 22

During the audit of Nyagatare Construction Ltd, the auditor is reviewing the year-end accruals balance of FRW 85 million. The auditor notes that a significant portion of the accruals relate to estimated costs for work in progress on long-term contracts where final invoices have not yet been received from subcontractors.

Which financial statement assertion is of primary concern in relation to these accruals, and which audit procedure most directly addresses it?

A Existence, the auditor should agree accrual entries to the general ledger to confirm they have been recorded
B Completeness, the auditor should review post-year-end invoices to identify any further accruals that may have been omitted
C Valuation, the auditor should review management's basis for estimating each accrual and assess whether the amounts represent the best estimate of the obligation at the year end, by reference to contract terms, stage of completion, and subsequent invoices received
D Cut-off, the auditor should confirm that all accruals relate to the current financial year and have not been carried forward from the prior period

(2 Marks)

QUESTION 23

An audit team member is designing procedures for the audit of Kigali Electronics Ltd and proposes the following two procedures:
Procedure 1: Select a sample of 40 purchase invoices and inspect each for evidence of authorisation by an appropriate manager. For example, a dated signature on the invoice, before payment was processed.
Procedure 2: Select a sample of 40 purchase invoices and agree the amount on each invoice to the corresponding entry in the purchase ledger to verify that amounts have been recorded at the correct value.

How should each procedure be classified?

A Procedure 1: substantive test of details; Procedure 2: Test of controls
B Both procedures are tests of controls, as both involve inspecting purchase invoices
C Both procedures are substantive tests of details, as both involve tracing invoices to the underlying records
D Procedure 1: Test of controls; Procedure 2: Substantive test of details

(2 Marks)

QUESTION 24

Consider the following statements about the audit of bank reconciliations:
1) The auditor should obtain a direct bank confirmation from the bank and agree the confirmed closing balance to the balance per the bank statement held by the client, and then to the balance per the cash book.
2) Because arithmetical checking of the bank reconciliation is a mechanical task, it can be delegated entirely to the client's finance team, and the auditor need only review the final reconciliation for reasonableness.

3) The auditor should review bank statements for the period immediately after the year end to confirm that reconciling items such as unpresented cheques and outstanding deposits have subsequently cleared.
4) The auditor should inspect the bank reconciliation for evidence of independent management review, such as a supervisory signature or initials, to confirm that an appropriate oversight control is in place.

Which of the above statements correctly describe appropriate audit procedures for testing bank reconciliations?

A 1 and 3 only
B 2 and 4 only
C 1, 3, and 4 only
D 1, 2, 3, and 4

(2 Marks)

QUESTION 25

An auditor is designing procedures to test the rights and obligations assertion for non-current assets recorded in the financial statements of Rubavu Hospitality Ltd. The assets include a hotel building, motor vehicles, and a portfolio of commercial properties.

Which combination of audit procedures best addresses the rights and obligations assertion for non-current assets?

A Recalculate depreciation on a sample of assets and agree the net book value to the non-current asset register
B Agree assets in the non-current asset register to physical assets during a site inspection to confirm existence, and recompute the depreciation charge to confirm accuracy
C Examine title deeds, land registration certificates, and vehicle registration documents to confirm legal ownership; obtain confirmation from any lenders with a charge over the assets confirming the entity's title
D Review the asset additions during the year and agree each addition to a supplier invoice confirming cost, and inspect capital expenditure authorisation approvals

(2 Marks)

QUESTION 26

Consider the following four audit scenarios:

Scenario 1: The auditor concludes that the financial statements contain a material misstatement in relation to the valuation of a specific intangible asset. The misstatement is significant but isolated to this single item.
Scenario 2: The auditor is unable to obtain sufficient appropriate audit evidence about the completeness of revenue, because management has denied access to the underlying sales records. The auditor concludes that the possible effects of this limitation are both material and pervasive.
Scenario 3: The auditor concludes that a material misstatement permeates the financial statements as a whole, affecting multiple line items and fundamentally undermining the reliability of the financial statements.

Scenario 4: The auditor concludes that the financial statements present fairly, in all material respects, in accordance with IFRS, and that no material misstatements exist.

Match each scenario with the correct audit opinion:

A Scenario1: Disclaimer; Scenario2: Qualified; Scenario3: Adverse; Scenario4: Unmodified
B Scenario1: Qualified; Scenario2: Disclaimer; Scenario3: Adverse; Scenario4: Unmodified
C Scenario1: Adverse; Scenario2: Disclaimer; Scenario3: Qualified; Scenario4: Unmodified
D Scenario1: Qualified; Scenario2: Adverse; Scenario3: Disclaimer; Scenario4: Unmodified

(2 Marks)

QUESTION 27

Which of the following controls would best address risks around the completeness of revenue in the financial statements?

A Requiring independent review of all sales invoices before recording
B Performing regular reconciliations between sales records and bank deposits
C Ensuring that all sales are classified according to product categories
D Verifying that each sales invoice includes accurate pricing and quantities

(2Marks)

QUESTION 28

An auditor is assessing the overall inherent risk for the audit of Cyangugu Infrastructure Ltd, a company that has recently expanded into three new African countries, is operating under a new and complex joint venture structure, and whose Chief Executive Officer left unexpectedly three months before the year end amid unresolved disputes with the Board.

Which of the following most accurately explains why these factors increase inherent risk at the financial statement level?

A These factors increase control risk, not inherent risk; inherent risk is fixed by the nature of the account balance being audited and cannot be changed by external circumstances
B These factors reduce inherent risk because complex group structures and management changes typically result in stronger governance and oversight procedures being implemented
C These factors increase inherent risk because complexity of operations, geographic expansion, and instability in senior management all increase the susceptibility of the financial statements to material misstatement before considering any controls
D These factors are not relevant to inherent risk assessment; they would only be relevant if the auditor suspected fraud, which cannot be presumed without direct evidence

(2Marks)

QUESTION 29

According to ISA 220 Quality Management for an Audit of Financial Statements, **which individual bears overall responsibility for the direction, supervision, and performance of the audit engagement, and for ensuring that the audit report issued is appropriate in the circumstances?**

A The audit manager, who coordinates the day-to-day conduct of fieldwork and is responsible for reviewing all working papers before submission
B The audit committee of the entity being audited, which is responsible for overseeing the quality of the audit process on behalf of the shareholders
C The engagement partner, who has ultimate responsibility for the quality and conduct of the audit engagement and whose signature appears on the audit report
D The senior audit partner of the audit firm, who is responsible for all audit engagements conducted by the firm as a whole

(2Marks)

QUESTION 30

The auditor of Musanze Dairy Products Ltd initially assesses control risk as high for the purchases cycle, because walkthroughs reveal that purchase invoices are frequently approved by the same person who raises the purchase order, and several invoices in a pre-screening review were found to lack proper authorisation.

Given this high control risk assessment, what audit approach should the auditor adopt, and what is the implication for detection risk?

A The auditor should perform extensive tests of controls to identify and document all control deficiencies before deciding on the level of substantive testing required
B Because control risk is high, the auditor cannot rely on the controls and must set detection risk at a low level, requiring more extensive and rigorous substantive testing of the purchases balance
C High control risk means the auditor should increase the materiality threshold for the purchases cycle to reduce the number of transactions requiring substantive testing
D Because control risk is high, the auditor should expand the tests of controls to a larger sample size, which will automatically reduce the level of substantive testing required

(2 Marks)

QUESTION 31

Which audit procedure is most suitable for testing the completeness of bank accounts?

A Confirming bank balances with financial institutions
B Reviewing the entity's cash flow forecasts
C Performing cut-off testing for cash receipts and payments
D Checking calculations of bank reconciliations performed

(2 Marks)

QUESTION 32

During audit planning, the auditor of Kigali Transport Ltd identifies the following risk: Capital expenditure on new vehicles may be incorrectly expensed to the income statement rather than capitalised to the non-current asset register, resulting in an overstatement of operating expenses and understatement of non-current assets.

To which financial statement assertion does this risk most directly relate, and which audit procedure would best address it?

A Existence: The auditor should physically inspect new vehicles to confirm they exist at the year end
B Completeness: The auditor should trace additions from the non-current asset register to purchase invoices to confirm all assets have been recorded
C Cut-off: The auditor should test purchases near the year end to confirm they have been recorded in the correct accounting period
D Classification: The auditor should review a sample of capital expenditure invoices and expense postings to confirm that items meeting the capitalisation criteria have been correctly recorded as non-current assets rather than expensed

(2 Marks)

QUESTION 33

Which of the following risks related to accruals pertains to the rights and obligations assertion?

A Accruals recorded without supporting documentation
B Large year-end accruals missing from the financial statements
C Accruals calculated using inconsistent methods
D Accrued liabilities that are not linked to any contractual agreement

(2 Marks)

QUESTION 34

Three weeks into fieldwork for the audit of Kayonza Sugar Ltd, the auditor discovers through a review of post-year-end board minutes that the company is the subject of a significant legal claim that was filed shortly before the year end. Management had not disclosed this to the auditor during planning, and no provision or contingent liability has been recognised in the financial statements.

How should the auditor respond to this newly identified risk?

A Note the matter in the audit working papers and raise it in the following year's audit, as the legal claim was filed before the year end and is therefore management's responsibility to disclose
B Disregard the matter as it arose after the year end and is therefore outside the scope of the current audit
C Immediately issue a modified audit opinion based on the undisclosed contingent liability, without performing further procedures
D Update the audit plan to include additional procedures addressing the contingent liability, such as obtaining legal confirmation and assessing the adequacy of disclosures; document the rationale for all changes made to the plan

(2 Marks)

QUESTION 35

Which of the following audit procedures would be most effective in testing for the risk of wrongly translating foreign cash balances?

A Reviewing the foreign exchange rates used in the conversion of cash balances
B Confirming cash balances with the entity's foreign banks
C Observing the physical counting of foreign currency held by the entity
D Analysing the entity's cash flow forecasts for foreign currency transactions

(2 Marks)

QUESTION 36

Which of the following is a key objective of the audit plan?

A To increase the amount of audit evidence collected
B To describe the scope, objectives, and intended outcomes of the audit
C To clearly set out the terms of the audit engagement for the client
D To report weaknesses in internal control

(2 Marks)

QUESTION 37

An auditor is testing the accounts payable balance of Kigali Office Supplies Ltd at 31 December 2025. The auditor selects a sample of 30 entries from the payables ledger and traces each to the corresponding supplier invoice and goods received note.

Which assertion does this procedure primarily address, and why?

A Completeness: Tracing from the ledger to source documents confirms that all amounts owed to suppliers have been recorded
B Valuation: Agreeing ledger entries to invoices confirms that liabilities are recorded at the correct monetary amount
C Existence: Tracing from the ledger outward to supporting source documents confirms that recorded payable balances are supported by genuine underlying transactions and therefore actually exist
D Cut-off: Agreeing ledger entries to invoices and goods received notes confirms that transactions have been recorded in the correct accounting period

(2 Marks)

QUESTION 38

Which of the following is an example of substantive analytical procedures?

A Testing the physical existence of inventory
B Inspecting contracts for lease obligations
C Reviewing the authorisation of journal entries
D Comparing the actual financial results with auditor expectations

(2 Marks)

QUESTION 39

During the audit of Nyabihu Processing Ltd, the auditor designs the following two procedures for trade receivables: Procedure 1, select a sample of customer balances from the receivables ledger and send direct confirmation requests to customers; Procedure 2, select a sample of dispatch notes from the dispatch log and trace each to a corresponding sales invoice and receivables ledger entry.

Which assertion does each procedure primarily address?

A Procedure1: Completeness; Procedure2: Existence
B Procedure1: Existence; Procedure2: Completeness
C Procedure1: Valuation; Procedure2: Cut-off
D Procedure1: Rights and obligations; Procedure2: Accuracy

(2 Marks)

QUESTION 40

When reviewing board minutes as part of the audit, which of the following represents the primary audit objective of this procedure?

A To verify that the minutes have been properly authorised and signed by the Chairman, confirming compliance with the Companies Act 2021
B To identify significant decisions, events, or transactions discussed at board level, such as major acquisitions, disposals, litigation, or related-party transactions that may affect the financial statements or require disclosure
C To confirm that all board members attended at least one meeting during the year, demonstrating active governance oversight
D To obtain evidence that the board approved the financial statements before they were submitted to the auditor, satisfying the management representations requirement under ISA 580

(2 Marks)

QUESTION 41

1 Sufficiency refers to the quantity of audit evidence collected to support the audit opinion.
2 Appropriateness refers to the ease with which the audit evidence can be collected and documented.
3 Audit evidence must be both relevant and reliable to be considered appropriate.
4 Evidence that is appropriate but insufficient can still fully support the audit opinion.

Which of these statements about sufficient and appropriate audit evidence are true?

A 1 and 3 only
B 2 and 4 only
C 1, 2, and 3 only
D 3 and 4 only

(2 Marks)

QUESTION 42

What should an auditor do first when an error is identified during audit testing?

A Report the error directly to the engagement partner
B Document management's response to the error
C Clearly identify the nature and scope of the error
D Assess the materiality of the error

(2 Marks)

QUESTION 43

What happens if shareholders fail to appoint an auditor under the Rwanda Companies Act?

A. The company becomes exempt from audit requirements
B. The Board of Directors must appoint the auditor
C. The previous auditor is re-appointed
D. The Registrar of Companies appoints the auditor

(2 Marks)

QUESTION 44

Which of the following best describes detection risk?

A The risk that material misstatements exist due to the nature of the business or transactions
B The risk that internal controls fail to prevent or detect material misstatements
C The risk that the auditor expresses an incorrect opinion because a material misstatement is not detected by audit procedures
D The risk that the auditor gives an inappropriate opinion when financial statements are materially misstated

(2 Marks)

QUESTION 45

What is the expectation gap in auditing?

A The gap between auditors' legal duties and public expectations of the audit
B The difference between the audit fee and management's expectations
C The time gap between issuing the audit report and shareholders' meeting
D A gap between the company's profits and its tax obligations

(2Marks)

QUESTION 46

An auditor has completed the audit of Bugesera Agricultural Bank Ltd and identified seventeen control weaknesses of varying significance. When preparing the management letter, the auditor assigns a priority rating of High, Medium, or Low to each finding.

What are the principal purposes of prioritising findings in the management letter?

A To reduce the length of the management letter by excluding low-priority findings that do not require management attention
B To help management and those charged with governance focus their attention and resources on the most critical control weaknesses, and to guide the structure of the executive summary
C To allow the auditor to charge a higher fee for engagements with a greater number of high-priority findings
D To determine which findings should be included in the audit opinion and which should be excluded from the public audit report

(2Marks)

QUESTION 47

1 Payroll systems handle employee compensation, tax deductions, and benefit contributions to ensure accurate and timely wage payments.
2 Timekeeping systems are optional and not necessary for calculating employee compensation accurately.
3 Payroll systems are required to generate and submit tax forms and report payroll taxes to relevant authorities.
4 Employees have unrestricted access to modify their own tax withholdings and payroll deductions directly in the system.

Which of these statements about a payroll accounting system are true?

A 1 and 3 are true
B 1, 2, and 4 are true
C 2, 3 and 4 are true
D 1, 2, and 3 are true

(2Marks)

QUESTION 48

During the audit of Kicukiro Garments Ltd for the year ended 31 December 2025, the auditor reviews the prior year management letter, which contained a high-priority finding about the absence of independent review of supplier payments before release. Management had agreed to implement a dual-approval process by March 2025. During the current year audit, the auditor finds that no dual-approval process has been implemented.

How should the auditor treat this unresolved prior year finding?

A The finding should be removed from the management letter as it was raised in the prior year and is no longer the current year auditor's responsibility to report
B The auditor should report the unresolved finding in the current year management letter, noting that it was raised in the prior year and remains outstanding; the continued absence of the control also represents an ongoing risk of material misstatement that should be reflected in the current year audit plan
C Because the finding was previously reported and management agreed to address it, the auditor can assume the control is now in place without further testing

D The unresolved prior year finding automatically requires the auditor to issue a qualified opinion for the current year, as management has failed to implement an agreed corrective action

(2 Marks)

QUESTION 49

What is the primary purpose of the accounts receivable module in a revenue accounting system?

A To manage product returns and refunds
B To calculate monthly revenue projections
C To track amounts owed by customers and monitor collections
D To adjust pricing strategies based on customer behaviour

(2 Marks)

QUESTION 50

The auditor of Rubavu Marine Services Ltd has completed the audit for the year ended 31 December 2025. During the audit, the auditor concludes that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. The financial statements include a comprehensive note disclosing the going concern uncertainty and the assumptions underlying management's assessment. The auditor is satisfied that the disclosure is adequate and that the going concern basis of accounting remains appropriate.

What type of audit report should the auditor issue, and what additional section must be included?

A A qualified opinion, because the existence of material uncertainty about going concern means the financial statements do not present a true and fair view
B An adverse opinion, because material going concern uncertainty is always pervasive and undermines the reliability of the financial statements as a whole
C A disclaimer of opinion, because the auditor cannot obtain sufficient evidence about future events to be able to form a conclusion on the going concern basis of accounting
D An unmodified opinion with a material uncertainty related to going concern' section, drawing attention to the note in the financial statements that discloses the uncertainty, while confirming that the audit opinion has not been modified in respect of this matter

(2 Marks)

End of question paper