CERTIFIED PUBLIC ACCOUNTANT

STRATEGIC LEVEL EXAMINATIONS

AA3.1 ADVANCED AUDIT AND ASSURANCE

DATE: WEDNESDAY, 27 MAY 2026

MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE: AZUREON RESORTS LIMITED
MARKING GUIDE

Description	Marks
(a): Ethical Threats – Sterling & Nkosi LLP	
Award 2 marks per well-identified from the case study and explained ethical threat (threat type + significance + scenario linkage). Maximum of 10 marks for threat identification and assessment. No marks will be awarded for generic answers.	**10**
Award 1 mark for a reasoned conclusion on whether the firm should have accepted the engagement, supported by the preceding analysis. Maximum 2 marks for concluding discussion.	**2**
Total marks for Q1(a)	**12**
(b): Significant Audit Risks	
Award 1 mark per clearly identified risk from the scenario. Award 1 mark for explaining why the risk could lead to a material misstatement (linked to a financial statement assertion). Award 1 mark for each relevant, specific audit procedure described. Five risks required at up to 3 marks each.	**15**
Total marks for Q1(b)	**15**
(c): Reliance on Work of Third Parties (IAF, DataTech, Valuers)	
Award up 4 marks for well explained issues in IAF- 2 marks allocated to 2 identified issues in the function, and 2 marks for 2 additional procedures suggested) Award 3 marks for each of DataTech, and Valuers (2 marks allocated for any 2 identified issues, and 1 mark for any additional procedure suggested) **-IFF:** 4 Marks **- DataTech:** 3 Marks - **Valuers**: 3 Marks	**10**
Total marks for Q1(c)	**10**
(d): Post-Balance Sheet Events, Going Concern, Disclosures, and Audit Report	
• Award 1 mark for a proper treatment of the covenant breach and and 1 mark for poper treatment of the fire (Up to 2 marks). • Award 1 mark for each gap in management's going concern analysis (up to 3 marks) • Award up to 3 marks for the audit report implications if disclosures are refused.	**8**
Total marks for Q1(d)	**8**

Description	Marks
(e): Audit Opinion	
Award 1 mark per relevant factor considered (cumulative misstatements, management refusal, incomplete QR, scope limitations)- Upto 4 marks. Award 1 mark for a justified recommendation on form of opinion.	**5**
Total marks for Q1(e)	**5**
TOTAL MARKS FOR QUESTION ONE	**50**

MODEL ANSWER TO QUESTION ONE: AZUREON RESORTS LIMITED

Part (a): Ethical Threats – Acceptance and Conduct of the Engagement

The IESBA Code of Ethics (and ISQM 1) requires that an audit firm identify, evaluate and address threats to independence and the fundamental ethical principles before and throughout an engagement. The following threats arise from Sterling & Nkosi's acceptance and conduct of the Azureon engagement:

1. Self-Interest Threat – Fee Dependence (Significant)

Sterling & Nkosi's total fees from Azureon amount to FRW 1.44 billion, representing 18% of the Kigali office's total fee income. The IESBA Code highlights that where fees from a single listed client exceed 15% of the firm's total fee income, a significant self-interest threat arises because the firm may be commercially motivated to avoid losing the client, potentially compromising its objectivity. For a publicly listed entity such as Azureon (listed on both the RSE and NSE), this threshold is particularly stringent. The firm should have applied enhanced safeguards, including pre- and post-issuance engagement quality review and disclosure to those charged with governance. The fact that the engagement quality review was not completed compounds this threat.

2. Self-Interest Threat – Low-Balling / Reduced Audit Fee (Significant)

The firm submitted a proposal at FRW 980 million, a 22% reduction from the predecessor auditor's fee. Low-balling creates a self-interest threat: reduced fees may result in insufficient audit work being performed to keep within budget, compromising audit quality. This is particularly concerning given the complex IFRS issues (IFRS 15, IFRS 16, IAS 36, IAS 16 revaluation) present in the Azureon engagement, which demand substantial audit resources. The firm's commitment to thoroughness may be undermined by the commercially motivated fee reduction.

3. Self-Interest / Advocacy Threat – Misleading Representation in Tender Proposal

Sterling & Nkosi's proposal included the claim of an 'unbroken record of clean audit opinions.' This statement is misleading and violates the fundamental principle of integrity (and potentially honesty), as no audit firm can credibly claim that no material misstatements have ever been identified across all engagements. Making such representations to win business constitutes an advocacy threat and brings the profession into disrepute. The firm should not have made this statement.

4. Self-Interest / Familiarity Threat – Consulting Contract with Meridian Capital Partners

Sterling & Nkosi holds a FRW 210 million per year management consulting contract with Meridian Capital Partners, the largest single shareholder (18.3%) of Azureon with two Board seat nominations. This creates a significant self-interest and familiarity threat: the firm has a direct financial relationship

with an entity that exercises significant influence over Azureon's governance. This conflict of interest is incompatible with auditor independence for a listed company audit. The firm should have identified and evaluated this threat at the client acceptance stage and, in the absence of an effective safeguard, should have declined either the consulting contract or the audit engagement.

5. Intimidation / Self-Interest Threat – Acceptance Without Predecessor Auditor Communication

Sterling & Nkosi accepted the engagement without obtaining predecessor auditor communication from Fortis & Associates, who resigned citing a 'difference of professional opinion.' ISA 300 and professional ethical requirements mandate that an incoming auditor communicate with the predecessor auditor to identify matters relevant to the decision to accept the engagement. The resignation of a predecessor auditor for professional reasons is a significant red flag suggesting management integrity risks. By waiving this requirement due to 'AGM deadline pressures,' the firm accepted an unacceptable intimidation risk from management and failed to exercise appropriate professional skepticism.

6. Competence Threat – Assignment of Inexperienced Team Members

The fundamental principle of professional competence and due care requires that audit team members possess adequate skills and experience relevant to the engagement. Assigning two recently qualified associates with no hospitality industry experience to lead fieldwork at a complex, listed, multi-jurisdictional luxury hotel group violates this principle. Issues such as IFRS 15 multi-element bundled bookings, IFRS 16 lease classification, IAS 16 property revaluation, and going concern assessment require significant technical expertise and industry knowledge. The firm has failed in its duty to staff the engagement appropriately.

7. Self-Interest Threat – Incomplete Engagement Quality Review

ISQM 2 and ISA 220 require that for listed entities, an engagement quality reviewer (EQR) performs an objective review before the auditor's report is issued. Mr. Solomon Otieno's review was deferred and incomplete when the draft auditor's report was presented to the Audit Committee. This represents a serious quality management failure and creates a self-interest threat: issuing the report without a completed EQR review means the firm lacks an independent check on its conclusions, particularly given the numerous complex and high-risk issues in this engagement.

8. Self -Review threat because of Tax advisory services provided to the audit client: The firm performs both audit and tax advisory services. Audit staff may later audit tax positions and advice previously provided by the firm. This may result in the firm hiding any irregularities in the work previously performed and prevent them from acting independently.

Conclusion on Acceptance

Taking all threats together, Sterling & Nkosi should not have accepted this engagement in its current form. The combination of fee dependence exceeding the 15% threshold, a conflict of interest arising from the Meridian consulting contract, failure to communicate with the predecessor auditor, and the absence of adequately experienced staff constitutes an accumulation of threats for which no single

safeguard could suffice. The firm should have either resigned from the consulting relationship with Meridian Capital Partners, obtained predecessor auditor communication before acceptance, and staffed the engagement with experienced hospitality specialists – or declined the audit.

Part (b): Five Significant Audit Risks

The following five risks are identified from the scenario as most significant. For each risk, the financial statement impact and audit response are described:

Risk 1: Premature / Incorrect Revenue Recognition – AI-Driven Dynamic Pricing System (DPS)

Why it could lead to a material misstatement: Revenue represents FRW 612 billion (the single largest figure in the financial statements). Management has acknowledged that approximately FRW 47 billion from algorithm-driven multi-element bookings may have been prematurely recognised. IFRS 15 requires the transaction price to be allocated across each distinct performance obligation at stand-alone selling prices, with recognition deferred until each obligation is satisfied. Management's estimate of a FRW 6.2 billion overstatement is based on portfolio-wide weighted average assumptions without transaction-level support and is therefore unreliable. Additionally, 23 unresolved reconciliation exceptions between the revenue management system and the general ledger remain outstanding at year-end, and management has refused to provide booking-level data from the PMS, severely restricting the audit team's ability to perform independent testing. This creates a significant risk of overstatement of revenue and profit.

Audit Procedures:

- Obtain and review Azureon's IFRS 15 revenue recognition accounting policy and assess its appropriateness relative to the nature of multi-element bookings.
- Request transaction-level booking data from the PMS for a sample of algorithm-driven, bundled reservations and independently verify the allocation of the transaction price across distinct performance obligations (accommodation, F&B, wellness, events) at stand-alone selling prices.
- Engage an IT audit specialist to perform an independent assessment of the DPS, including its inputs, processing logic, and integration with the property management and general ledger systems.
- Investigate and reconcile the 23 outstanding reconciliation exceptions between the revenue management system and the general ledger; consider whether they indicate systemic errors in revenue capture.
- Perform analytical procedures on room revenue, F&B revenue, conference/events, and wellness revenue, comparing actual performance against budgets, prior year, and occupancy data to identify unexplained variances.
- Evaluate the reasonableness of management's FRW 6.2 billion overstatement estimate by independently selecting a sample of multi-element bookings and recalculating the correct IFRS 15 allocation; compare to management's estimate.

Note: If management continues to withhold PMS data, this constitutes a scope limitation requiring escalation through the audit opinion.

Risk 2: Incorrect Classification of Leases – IFRS 16

Why it could lead to a material misstatement: Azureon has entered into 14 new lease agreements in 2014. Management classified 6 leases with terms of 8–14 years, annual payments of FRW 4.1 billion, and bargain purchase options as short-term or low-value operating leases, recognising neither right-of-use (ROU) assets nor lease liabilities. Under IFRS 16, leases with bargain purchase options and long terms are finance leases, requiring recognition of approximately FRW 18.6 billion in ROU assets and FRW 22.4 billion in lease liabilities. Misclassification results in: understatement of total assets (by FRW 18.6 billion), understatement of total liabilities (by FRW 22.4 billion), and net assets overstated. The impact on net debt-to-EBITDA (already at 4.5, breaching the 4.0 covenant) would be further adverse. This is material by both quantitative and qualitative measures.

Audit Procedures:

- Obtain all 14 new lease agreements and review their key terms: lease term, renewal options, bargain purchase options, payment schedules, and asset descriptions.
- Apply the IFRS 16 recognition criteria to each lease to determine whether each should be classified as a finance lease, including assessment of whether bargain purchase options are substantive.
- For the 6 disputed leases, independently calculate the present value of future lease payments using the incremental borrowing rate to determine the ROU asset and lease liability amounts.
- Assess whether the impact of reclassifying these leases to finance leases is material to the financial statements and to the Oceanic Bank covenant ratio.
- Discuss findings with management and request appropriate adjustments and disclosures under IFRS 16 paragraphs 47–50.

Risk 3: Property Revaluation – Objectivity and Reliability of Internal Valuation

Why it could lead to a material misstatement: Azureon uses the IAS 16 revaluation model for its hotel properties. The revaluation of the two newly commissioned properties (Seychelles: FRW 94.6 billion; Dubai: FRW 71.2 billion) was performed internally by management's own asset management team rather than an independent external valuer, using DCF projections prepared by the same team that developed the DPS revenue forecasts. This represents a significant self-review/conflict of interest: the individuals preparing the valuation basis have a direct interest in maximising apparent asset values. The resulting FRW 68 billion revaluation surplus recognised in OCI is potentially overstated, inflating equity and the revaluation reserve. Additionally, the occupancy projections underpinning the DCF may not reflect market-realistic assumptions, particularly given the post-pandemic recovery context.

Audit Procedures:

- Assess whether the use of an internal valuation rather than an independent external expert is appropriate under IAS 16 and ISA 620 (Use of an Auditor's Expert); consider engaging the firm's own property valuation specialist.
- Critically evaluate the DCF methodology used: review the discount rate applied, the revenue growth assumptions, occupancy projections, and comparable market data to assess reasonableness.
- Obtain and review relevant market data on hotel property values in the UAE and Seychelles from independent sources; compare to management's DCF conclusions.

- Assess the credentials and objectivity of Mr. Augustin Rurangwa and the internal asset management team; obtain their written representation on assumptions used.
- Evaluate the adequacy of the revaluation surplus recognised in OCI, including whether the accounting entries under IAS 16 paragraphs 39–40 are correct.
- Consider whether prior-year revaluations of the 16 existing properties by Meridian Property Valuers Ltd and East Africa Land Consultants are appropriately supported and whether multi-year contract relationships impair the valuers' objectivity.

Risk 4: Going Concern – Covenant Breach and Liquidity Risk

Why it could lead to a material misstatement: On 14 January 2015, Oceanic Bank issued a Notice of Covenant Breach after Azureon's net debt-to-EBITDA reached 4.5 against a covenant threshold of 4.0. The FRW 180 billion term loan becomes immediately repayable on breach. This represents a material uncertainty about the group's ability to continue as a going concern. Management's going concern analysis projects FRW 38 billion in positive free cash flows but relies on four unverified assumptions (waiver, occupancy recovery, insurance recovery, no adverse regulation) and includes no sensitivity analysis or stress-testing. Additionally, the fire at the Azureon Grand Lakeview Resort (FRW 94 billion carrying value; FRW 38 billion annual revenue) and the imminent entry of CrystalArc Hotels into Azureon's core markets add further uncertainty. Management has not disclosed these matters, claiming they are post-year-end and immaterial, which is incorrect: IAS 10 and ISA 570 require adjusting and non-adjusting events to be properly assessed and disclosed.

Audit Procedures:

- Obtain and critically assess management's going concern analysis; evaluate each of the four key assumptions for reasonableness and independently challenge them using available evidence.
- Communicate directly with Oceanic Bank (with client consent) to determine whether a waiver has been granted or is likely to be granted and obtain written confirmation of the bank's intentions.
- Review the fire insurance policy for the Azureon Grand Lakeview Resort; assess the 85% recovery estimate against policy terms; obtain written confirmation from the insurer.
- Request management to prepare sensitivity analyses and stress-test scenarios modelling the impact of the covenant breach not being waived, partial insurance recovery, and increased competition from CrystalArc.
- Review board minutes, management accounts, and cash flow forecasts for the period January–May 2015 to assess current liquidity position.
- Assess whether the Oceanic Bank covenant breach, the fire, and the CrystalArc competitive threat require disclosure as non-adjusting post-balance sheet events under IAS 10 paragraph 21.

Risk 5: Goodwill Impairment (IAS 36)

Why it could lead to a material misstatement: Azureon's balance sheet carries FRW 43.8 billion in goodwill from the 2011 acquisition of Azureon Island Resorts Ltd, subject to annual impairment testing. Management's impairment model uses a discount rate of 8.2% and a growth rate of 6.5%. The engagement team's independent assessment indicates more appropriate market-aligned assumptions of 10.5–11% discount rate and 4% growth rate. Applying these revised assumptions reduces the recoverable amount below the CGU's carrying value, triggering an impairment charge of

approximately FRW 11.2 billion. At FRW 43.8 billion, goodwill is material and the FRW 11.2 billion impairment, if unrecognised, represents a material misstatement through overstatement of goodwill and overstatement of profit.

Audit Procedures:

- Obtain management's goodwill impairment model and review the methodology and key assumptions: discount rate, revenue growth rates, terminal value assumptions, and CGU definition.
- Engage a valuation specialist or use internal expertise to independently assess the appropriate discount rate and long-term growth rate using market data (WACC benchmarks, industry analyst forecasts, comparable transaction multiples).
- Perform sensitivity analysis on the impairment model using a range of discount rates (8.2% to 11%) and growth rates (4% to 6.5%) to determine the range of recoverable amounts and the trigger point for impairment.
- Assess the reasonableness of future cash flow projections in the value-in-use model against the group's approved budgets and actual trading performance.
- Consider whether the goodwill relates specifically to the Azureon Island Resorts acquisition and whether subsequent integration of operations and any changes in competitive environment affect the recoverable amount.
- If impairment is confirmed, require management to recognise the impairment charge and make appropriate disclosures per IAS 36 paragraphs 126–137.

Part (c): Appropriateness of Reliance on Third Parties

ISA 610 (Revised) governs use of internal audit work; ISA 620 governs use of auditor's experts. The engagement team's reliance on three third parties requires critical evaluation:

(i) Internal Audit Function (IAF)

ISA 610 requires the external auditor to evaluate the IAF's objectivity, competence, and the application of a systematic and disciplined approach before relying on its work. The following concerns arise:

- Independence: The IAF reports administratively to CFO Bernard Hakizimana, who is identified as exerting significant influence over the IAF's audit plan, resource allocation, and scope. This fundamentally compromises the IAF's objectivity, as the CFO has a direct interest in the outcome of the revenue recognition review.
- Adequacy of procedures: The IAF's Q3 2014 review of revenue recognition controls relied solely on walkthroughs and inquiries with no transaction-level substantive testing. This limited procedure scope means the IAF's findings do not constitute substantive audit evidence; they can at best provide understanding of the control environment. The CFO's suggestion that IAF findings justify reducing external audit revenue testing is therefore inappropriate and should be rejected.
- Competence: The IAF comprises only four staff – a CIA and three auditors – for a group operating across four countries with 4,840 FTE employees. The resource constraint raises questions about the competence and capacity of the function.

Additional procedures required:

- Review the IAF charter, its reporting lines, and evidence of independence from management influence.
- Evaluate the IAF team's technical qualifications and experience, particularly in hospitality IT systems and IFRS revenue recognition.
- Review the specific IAF working papers for the revenue recognition review to assess the quality and completeness of procedures performed.
- Do not reduce the substantive audit programme for revenue on the basis of IAF work alone; use the IAF findings to direct, not replace, the external audit procedures.

(ii) DataTech Analytics Ltd

The engagement team has already relied on DataTech's DPS controls assessment as corroborating evidence in its working papers without evaluating DataTech's objectivity, independence, or competence. ISA 620 requires that before relying on an expert's work, the auditor must evaluate the expert's competence (qualifications, experience in the relevant field), objectivity (absence of conflicts of interest), and the adequacy of the work performed.

The critical conflict of interest: CFO Mr. Hakizimana holds a 12% equity stake in DataTech Analytics Ltd and was a founding director prior to joining Azureon. This is a significant, undisclosed conflict of interest that directly impairs DataTech's objectivity and independence. DataTech's December 2014 report declaring the DPS controls 'sufficiently robust' was commissioned by – and effectively reviewed by – an individual with a direct financial stake in the outcome. Reliance on this report, as currently placed by the engagement team, is wholly inappropriate.

Additional procedures required:

- Immediately remove DataTech's report from the working papers as corroborating evidence pending further evaluation.
- Disclose the identified conflict of interest to the Audit Committee and those charged with governance.
- Commission an independent IT audit of the DPS from a specialist firm with no commercial connection to Azureon or its management, at the expense of the audit client.
- Evaluate DataTech's professional qualifications, methodology, scope, and assumptions independently, with particular focus on the 23 outstanding reconciliation exceptions.

(iii) External Property Valuers (Meridian Property Valuers Ltd and East Africa Land Consultants)

ISA 620 requires the auditor to assess the competence, capabilities, and objectivity of an auditor's expert. The engagement team has not reviewed either valuer's assumptions, methodology, or professional standing. Two concerns arise:

- Relationship-impaired objectivity: Both valuers hold multi-year contracts with Azureon and have consistently produced valuations aligned with management's expectations. This pattern is consistent with valuer bias – the firms may be motivated to produce valuations that please management in order to retain their recurring contracts. Multi-year contractual relationships with

the auditee can impair the objectivity of expert valuers in exactly the same way that long audit tenure can impair auditor independence.

- Additionally, Meridian Property Valuers Ltd shares a name with Meridian Capital Partners (Azureon's largest shareholder), though the engagement team has not investigated whether these are related entities. If so, there is an additional conflict of interest.
- No review of methodology: The team has placed reliance on valuations without reviewing DCF assumptions, comparable transaction evidence, capitalisation rates, or the valuers' independence declarations. This is insufficient under ISA 620.

Additional procedures required:

- Obtain and review the valuation reports in full, including methodology, key assumptions, comparables used, and the valuers' professional qualifications and regulatory status.
- Independently benchmark the capitalisation rates and growth assumptions used against third-party market data for comparable hotel properties in the relevant jurisdictions (Rwanda, Kenya, UAE, Seychelles).
- Investigate whether Meridian Property Valuers Ltd is related to Meridian Capital Partners and, if so, assess the independence implications.
- Request that the valuers provide written independence declarations confirming no conflict of interest with Azureon, its management, or its major shareholders.

Part (d): Post-Balance Sheet Events, Going Concern Analysis, Disclosures, and Audit Report

Evaluation of Management's Position

Management has refused to disclose the Oceanic Bank covenant breach (14 January 2015), the Azureon Grand Lakeview Resort fire (3 February 2015), and the going concern uncertainty, claiming these are post-year-end and not material to the financial position at 31 December 2014. This position is incorrect in law and accounting standards:

- IAS 10.3 defines events after the reporting period as those occurring between the balance sheet date and the date the financial statements are authorised for issue. Both the covenant breach and the fire clearly fall within this window.
- The covenant breach is a non-adjusting event under IAS 10.22: it does not relate to conditions existing at 31 December 2014 but is sufficiently material (FRW 180 billion loan potentially accelerated) that its non-disclosure would prevent a true and fair view.
- The fire is similarly a non-adjusting event: the building was operational at year-end but has since become temporarily non-operational due to a post-year-end event.
- ISA 570 requires the auditor to evaluate whether, in light of all available evidence, management's use of the going concern basis is appropriate and whether material uncertainties have been adequately disclosed.

Adequacy of Management's Going Concern Analysis

Management's January 2015 going concern assessment is inadequate on the following grounds:

- It relies on four highly contingent assumptions (waiver, occupancy recovery, insurance recovery, no adverse regulation) without sensitivity analysis or stress-testing, making it optimistic rather than realistic.

- It does not address the scenario in which Oceanic Bank demands accelerated repayment of the FRW 180 billion term loan, which would place Azureon into immediate financial crisis.
- It does not quantify the revenue and EBITDA impact of the Azureon Grand Lakeview Resort being temporarily non-operational.
- It does not assess the medium-term competitive impact of CrystalArc Hotels entering Rwanda, Kenya, and UAE markets within 18 months.
- The assessment lacks a 12-month forward cash flow projection incorporating all known risks on a worst-case basis.

Required Disclosures in the Financial Statements

- Disclosure of the Oceanic Bank covenant breach (IAS 10.21), including the amount of the loan (FRW 180 billion), the covenant breached, and the current status of waiver negotiations.
- Disclosure of the fire at Azureon Grand Lakeview Resort (IAS 10.21), including the carrying value of the property (FRW 94 billion), the expected business interruption, and the status of insurance claims.
- A Material Uncertainty Related to Going Concern (MUGC) paragraph in the notes, disclosing the nature and extent of the going concern risk and the key assumptions underlying management's assessment.
- Disclosure of the CrystalArc competitive threat as a risk factor in the notes to the financial statements.

Implications for the Auditor's Report if Management Refuses

If management refuses to include the required disclosures, Ms. Joanna Harlow must consider the following implications for the auditor's report:

- Where the going concern uncertainty is material but not pervasive, the auditor should issue a qualified opinion (except for) on the grounds that the financial statements fail to include required disclosures under IAS 10 and ISA 570.
- Where the going concern uncertainty is both material and pervasive (i.e., the group may not survive the next 12 months without the bank waiver), the auditor should issue an adverse opinion.
- Regardless of the opinion type, if management has used the going concern basis and a material uncertainty exists, the auditor is required under ISA 570.22 to include a separate Material Uncertainty Related to Going Concern section in the auditor's report, even if qualified.

Part (e): Audit Opinion

Factors Ms. Joanna Harlow Must Consider:

- **Cumulative uncorrected misstatements:** The identified misstatements include revenue overstatement (up to FRW 47 billion acknowledged by management), incorrect lease classification (ROU assets understated by FRW 18.6 billion, liabilities understated by FRW 22.4 billion), potential goodwill impairment of FRW 11.2 billion, and an overstated revaluation surplus. Collectively these are likely to exceed materiality by a significant margin.
- **Management refusals and scope limitations:** Management has refused to provide PMS transaction-level data (scope limitation on revenue), withheld the beneficial ownership register

(limiting related party assessment), and refused to disclose post-balance sheet events. Each scope limitation must be assessed for its impact on the auditor's ability to form an opinion.

- **Ommisiion of material disclosures:** Management has omitted critical related party transactions, material non-adjusting events were omitted, and crucial financial risk details regarding the loan covenant breach was not disclosed.

- **Nature and Materliaty of identified Errors:** Individual issues like the uncorrected lease omissions of Frw 22.4 billion liability, capitalized maintenance expense of Frw 3.6 billion, goodwill overstatement Frw 11.2 billion, and the potential premature revenue recognition (ranging up to FRW 47 billion) completely distort the true financial performance.

- **Materiality and Pervasiveness of misstatement:** The auditor will consider both the matyeriality and parvasiveness of of uncorrected misstatements identified.

Recommendation on Audit Opinion:

Given the combination of: (i) material and likely pervasive misstatements across multiple financial statement areas; (ii) scope limitations on revenue testing and related party disclosures; and (iii) management's refusal to include required going concern disclosures, Ms. Harlow should issue an adverse opinion or, at minimum, a qualified opinion with emphasis of matter paragraphs. If the scope limitations are so pervasive that she cannot form any opinion on the financial statements as a whole, a disclaimer of opinion should be considered.

Note: Credit will be awarded for any reasoned conclusion consistent with the analysis in Parts (a)–(d), including a modified opinion with an explanation of the basis for modification.

SECTION B

QUESTION TWO: KIGALI HARVEST LIMITED (KHL)
MARKING GUIDE

Description	Marks
(a): Corporate Governance Weaknesses	
Award 1 mark per well-developed corporate governance weakness (max 5) and 1 mark per well-developed audit planning implication (max 3).	**8**
Total marks for Q2(a)	**8**
(b): AML Risks and Responsibilities	
Award 1 mark per identified AML risk indicator (Max 3 marks). Award 1 mark per legal responsibility under applicable AML legislation (Max 3 marks). Award 1 mark per specific procedural step the firm should take (Max 3 marks). *Maximum 9 marks.*	**9**
Total marks for Q2(b)	**9**
(c): Ethical Threats, Safeguards, and Fee Dependence	
Award 1 mark per threat correctly identified. (Max 4 marks) Award 1 mark per appropriate safeguard. (Max 4 marks) Maximum 8 marks total.	**8**
Total marks for Q2(c)	**8**
TOTAL MARKS FOR QUESTION TWO	**25**

MODEL ANSWER TO QUESTION TWO

Part (a): Corporate Governance Weaknesses and Audit Planning Implications

Corporate Governance Weaknesses:

- Ineffective Audit Committee: KHL's Audit Committee has not met in 18 months. The Audit Committee is a cornerstone of effective corporate governance. Its failure to meet means that neither the internal audit function nor the external auditors have had formal oversight by an independent body, weakening the entire governance and assurance framework. The CMA Corporate Governance Code (as noted by KHL's external legal counsel) may already be breached.
- Related Party in Finance Director Appointment: The appointment of the CEO's nephew as Finance Director raises a significant concern about the objectivity of the financial reporting process. The CEO's family relationship creates a conflict of interest and may mean the Finance Director defers to the CEO on accounting judgements, undermining the integrity of the financial statements.

- Restriction of Internal Audit Access: The Finance Director has restricted the internal audit team's access to certain supplier payment records. This is a serious governance failure: internal audit must have unrestricted access to all records to fulfil its oversight function. Restrictions on access are a red flag for potential fraud or irregularities in the procurement and payment cycle.
- Non-Disclosure of Legal Advice: KHL's Board has received legal advice that the company may be in breach of the CMA Corporate Governance Code but has not disclosed this to the auditors. Non-disclosure of material legal matters to the external auditor breaches ISA 250 (Consideration of Laws and Regulations) obligations and raises management integrity concerns.
- Rapid Revenue Growth Without Robust Controls: Revenue has grown 68% over two years, partly through a new major export contract. Rapid growth without corresponding control enhancement is a significant fraud risk indicator, particularly where governance oversight (Audit Committee) is absent.

Audit Planning Implications:

- Heightened risk of management override: Given the governance failures and the restricted access to records, the audit team must plan extended procedures around the risk of management override of controls, particularly in the procurement, payables, and export revenue cycles.
- The audit team should plan to obtain direct representation from the Board on the legal counsel's advice regarding the CMA breach and consider whether it is necessary to modify the planned audit procedures or include emphasis of matter in the auditor's report.
- The reliance that can be placed on internal audit work should be significantly reduced or eliminated given the restriction of IA access to supplier records. The external audit team should plan to perform its own substantive procedures on these restricted areas.

Part (b): AML Risks and Responsibilities

AML Risk Indicators:

- Large cash deposits totalling FRW 2.4 billion across seven transactions over four months from clients registered in high-risk AML jurisdictions are a significant indicator of potential money laundering (structuring/layering).
- The clients are not previously known to KHL and client agreements were executed rapidly with minimal documented due diligence – consistent with a layering arrangement where the counter-party's legitimacy has not been verified.
- The payments do not match any invoices on the debtors' ledger, meaning they are not properly linked to specific sales transactions, which is inconsistent with legitimate trade prepayments.
- The CEO's instruction to 'not escalate the matter' is itself a red flag: it constitutes an attempt to suppress potential tipping-off concerns but also inhibits the auditor's professional obligations.

Responsibilities of Kirabo & Associates Under Applicable AML Legislation:

- Under Rwanda's Law No 71/2018 on Prevention and Punishment of Money Laundering (and aligned Financial Intelligence Unit regulations), auditors are designated reporting entities obliged to report suspicious transactions to the Financial Intelligence Unit (FIU) without informing the client (i.e., without tipping off).

- The firm must file a Suspicious Activity Report (SAR) / Suspicious Transaction Report (STR) with the FIU as soon as it has reasonable grounds to suspect that the transactions constitute money laundering.
- Failure to file an STR constitutes a criminal offence under Rwandan AML law and exposes the firm and its engagement partner to prosecution, fines, and regulatory sanction.

Specific Steps the Firm Should Take:

- Immediately escalate the matter to the firm's Money Laundering Reporting Officer (MLRO) – do not discuss with the client or the CEO.
- The MLRO should assess the facts and, if reasonable grounds exist, file an STR with the Financial Intelligence Unit of Rwanda without delay and without informing KHL's management ('no tipping off').
- The firm should not comply with the CEO's instruction to suppress the matter – doing so would make the firm complicit in a potential criminal offence.
- Consider whether the discovery of these transactions affects the firm's willingness to continue the engagement and whether the risk to the firm's reputation and legal exposure justifies resignation, having first taken legal advice on the resignation process in an AML context.
- Document all internal deliberations and the decision-making process in the firm's engagement files in compliance with ISQM 1 documentation requirements.

Note: The firm must not resign in a manner that could alert the client that a report has been made to the FIU.

Part (c): Ethical Threats and Safeguards

Threat 1: Self-Review Threat – Preparation of Financial Statements

Preparing KHL's financial statements while also auditing them creates a self-review threat: the firm would be auditing its own work, making it unlikely to identify and report errors or misstatements in the financial statements it has prepared. IESBA Code Section 601 confirms that preparing financial statements for an audit client that is a listed or public interest entity is incompatible with independence.

- **Safeguard:** The firm should decline to prepare the financial statements. If the client requires accounting assistance, recommend engagement of a separate, non-affiliated accounting firm.

Threat 2: Management Threat / Self-Review Threat – Asset Valuation for Rights Issue

Valuing KHL's non-current assets for a rights issue while auditing the same assets creates both a self-review threat (auditing a value the firm determined) and a management threat (making decisions that are management's responsibility). IESBA Code Section 621 (Valuation Services) specifically prohibits valuation services for audit clients where the valuation would have a material effect on the financial statements.

- **Safeguard:** The firm must decline to perform the asset valuation for KHL. If the client requires an independent valuation, recommend a qualified, independent property valuer with no connection to the audit firm.

Threat 3: Self-Interest Threat – Fee Dependence

Audit fees representing 28% of the firm's total fee income create a significant self-interest threat: the firm is commercially dependent on retaining KHL as a client, potentially compromising its willingness to issue audit findings adverse to management. IESBA Code Section 410 sets out that fees from a

single audit client representing a significant proportion of total fee income require safeguards; for listed entities a 15% threshold triggers enhanced procedures.

- **Safeguard:** The firm should disclose the fee level to those charged with governance (the Audit Committee, if it resumes operation). Consider conducting a pre- or post-issuance engagement quality review by an independent partner. Actively seek to grow the practice's fee base to reduce proportional dependence on KHL. If the proportion continues to grow, the firm should consider resigning from the engagement.

Threat 4: Familiarity Threat – Long Audit Tenure

Kirabo & Associates has been KHL's statutory auditor for six years. Long audit tenure can lead to an over-familiarity with management, reduced professional skepticism, and acceptance of management's explanations without adequate challenge.

- **Safeguard:** Rotate the engagement partner and senior members of the audit team. Consider whether mandatory firm rotation (if applicable under local regulation) is required. Apply enhanced skepticism procedures, particularly in high-risk areas.

QUESTION THREE: RWANDA DEVELOPMENT INFRASTRUCTURE AUTHORITY (RDIA)

MARKING GUIDE

Description	Marks
(a): Forensic Audit – Acceptance, Evidence, and Report	
Award 1 mark per well-developed pre-acceptance consideration (max 3). Award 1 mark per evidence-gathering procedure (max 4). Award 1 mark per element of the forensic report content / form (max 2).	**9**
Total marks for Q3(a)	**9**
(b): Review of Prospective Financial Information	
Award 1 mark per challenge to management's PFI assumptions (max 4). Award 1 mark per procedure performed by the practitioner (max 3). Award 1 mark for level of assurance discussion and 1 mark for how communicated in report.	**9**
Total marks for Q3(b)	**9**
(c): Performance Information Audit (KPIs)	
Award 1 mark per relevant criterion for evaluating KPI reliability (max 2). Award 1 mark per examination procedure (max 3). Award 1 mark per appropriate conclusion / reporting recommendation (max 2).	**7**
Total marks for Q3(c)	**7**
TOTAL MARKS FOR QUESTION THREE	**25**

MODEL ANSWER TO QUESTION THREE

Part (a): Forensic Audit of Northern Corridor Road Project

Key Matters to Consider Before Accepting the Engagement:

- Scope and terms of reference: The firm must agree a detailed terms of reference with RDIA's Board, clearly defining the objectives of the forensic audit (determine the extent of irregularities, identify responsible parties, recommend controls improvement), the scope of the project period covered, and the deliverables expected.
- Independence and conflicts of interest: Abeza Auditors must assess whether it has any existing relationships with RDIA, the project manager, external vendors, or any persons potentially implicated in the irregularities that could impair its objectivity. If any conflicts exist, they must be disclosed or the engagement declined.
- Legal and regulatory considerations: The firm should obtain legal advice on its obligations to report findings to relevant authorities (e.g., the Procurement Regulatory Authority, Auditor General's Office, or law enforcement) and clarify whether the engagement is privileged. Evidence must be gathered and preserved in a manner admissible in legal proceedings.
- Team competence: The forensic team must include members with expertise in forensic accounting, public procurement rules, fraud investigation techniques, and digital evidence management. If internal competencies are insufficient, the firm should engage sub-contracted specialists.

Procedures for Gathering Sufficient and Appropriate Evidence:

- Obtain and review all procurement documentation for the Northern Corridor Road Project: contracts, tender documents, vendor lists, approved budgets, payment schedules, progress certificates, site inspection reports, and correspondence.
- Perform vendor verification procedures: independently verify the existence and legitimacy of all sub-contractors, including company registration details, physical address inspection, bank account confirmation, and comparison against government blacklists.
- Analyse all payment transactions against approved contracts and budgets; identify payments to fictitious vendors, duplicate payments, or payments without supporting project milestones.
- Conduct interviews with the project manager, RDIA finance staff, procurement officers, and external vendors; document all responses and cross-reference against documentary evidence.
- Perform data analytics: use CAATs to analyse payment patterns, vendor master data changes, unit price deviations, and timeline anomalies between invoice dates and payment dates.
- Preserve all digital evidence (emails, approvals, system logs) in forensically sound manner using hash verification to ensure chain of custody.

Form and Content of the Forensic Report:

- The forensic report should include: executive summary of findings; description of scope, objectives, and methodology; factual findings supported by evidence (with exhibits cross-referenced); assessment of the amount of irregularities identified; identification of responsible parties (with appropriate qualifications as to levels of certainty); root cause analysis of control failures; and specific control improvement recommendations.

- The report should clearly distinguish between findings of fact and matters of opinion or inference. It should be written with the anticipation that it may be used in legal proceedings and should avoid speculation.

Part (b): Review of Prospective Financial Information – RDIA Hydropower Station

Challenges Arising from Management's Assumptions:

- Tariff assumptions 30% above current regulated rates: Revenue projections derived from tariffs significantly above currently approved regulated rates are speculative and unsupported unless there is documented regulatory approval or a credible basis for rate increases. The practitioner must critically assess whether these assumptions are best-estimate (ISAE 3400 requirement) or optimistic/aspirational.
- No sensitivity analysis: Management has not prepared any sensitivity analysis on key assumptions (tariffs, population growth, construction timelines). This makes it impossible to assess the impact of variations in assumptions on the projected outcomes, which is a fundamental requirement for a robust PFI under ISAE 3400.
- Construction timeline risks: A 15-year forecast for a large infrastructure project inevitably involves uncertainty about construction completion, cost overruns, commissioning delays, and operational ramp-up – none of which appear to have been modelled.
- Optimistic population growth assumptions: Electricity demand projections based on population growth that is inconsistent with historical trends or government projections would render revenue forecasts unreliable.

Procedures to Perform (ISAE 3400):

- Obtain and review all supporting documentation for the key assumptions: tariff regulatory submissions, government population growth statistics, engineering feasibility studies, construction contracts, and comparable hydropower projects.
- Independently assess the reasonableness of the 15-year tariff assumptions against the current regulated rate, regulatory reform roadmaps, and regional benchmarks.
- Request management to prepare sensitivity analyses on at minimum: tariff levels (base case, stressed case), construction timeline delays (6 months, 12 months), and population growth rates (low, medium, high scenarios).
- Assess the internal consistency of the PFI: check that the assumptions on revenues, costs, and financing are consistent with each other and with the entity's strategic plan.
- Review the qualifications and competence of the team that prepared the PFI.

Level of Assurance and Communication in the Report:

Under ISAE 3400, a review of PFI provides limited (negative) assurance, not reasonable assurance. The practitioner is unable to express reasonable assurance because PFI is inherently based on assumptions about future events that cannot be verified. The report will state that, based on the procedures performed, nothing has come to the practitioner's attention that indicates the assumptions do not provide a reasonable basis for the PFI – or, if material assumptions are not reasonable, the practitioner will issue a modified conclusion. Given the unreasonable tariff assumptions and absence of sensitivity analysis, the report is likely to include a paragraph drawing attention to the significant assumptions and their departure from current regulated rates, making the PFI useful only with this qualification clearly communicated to the DFI.

Part (c): Audit of Performance Information – KPIs

Criteria for Evaluating Reliability and Usefulness of KPI Disclosures:

- Completeness and accuracy: KPIs should reflect all relevant activities within the reporting period and should be measured using consistent, documented methodologies. Reported figures should be reconcilable to underlying project records.
- Relevance and understandability: KPIs must be directly linked to RDIA's mandated objectives under the Organic Budget Law and must be expressed in clear, unambiguous terms that allow stakeholders to assess performance.
- Verifiability: KPI data must be supported by reliable, independently verifiable source documentation (e.g., Ministry of Infrastructure completion certificates, GPS/satellite imagery of road construction, water connection records).

Examination Procedures:

- For kilometres of road constructed (reported 412km vs target 450km): Independently verify reported construction against engineering completion certificates, site inspection reports, and geospatial data. Reconcile to project progress reports and contractor sign-off documentation.
- For households connected to water (reported 76,300 vs target 80,000): Verify against water authority connection records, field inspection reports, and beneficiary registers. Investigate whether any reported connections have been double-counted or include temporary connections.
- For projects completed on schedule (reported 74% vs target 70%): Obtain the full schedule of projects and compare reported completion dates against Ministry of Infrastructure sign-off certificates. For the two projects reported as complete but lacking Ministry sign-off, determine whether completion was correctly reported and whether sign-off is still pending or has been refused.
- For all KPIs: Perform testing on a sample basis, tracing reported data through to source documents and independently confirming with third parties (Ministry officials, contractors, beneficiaries) where possible.

Appropriate Conclusion in the Audit Report:

Given the identified inconsistencies – particularly that two projects reported as 'complete' have not received Ministry of Infrastructure sign-off – the auditor cannot conclude that the KPI disclosures are free from material misstatement. The audit report on performance information should include a qualified conclusion stating that, except for the overstatement in the 'percentage of projects completed on schedule' KPI arising from the inclusion of two projects not yet sign-off by the Ministry of Infrastructure, the reported KPIs present fairly, in all material respects, RDIA's performance against its KPI targets for the year. The quantified impact of the two sign-off exceptions should be included in the qualified conclusion to enable users to assess the significance of the departure.

QUESTION FOUR: BANQUE POPULAIRE INTEGRALE (BPI)

MARKING GUIDE

Description	Marks
(a): CAATs – Purpose, Procedures, and Appropriateness	
Award up 1 mark for valid purpose, 1 mark for a valid procedure, and 1 mark for a valid condition for appropriateness. (Max 9 marks) Award 0.5 marks for distinguishing test data from audit software. (Max 1 mark)	**10**
Total marks for Q4 (a)	**10**
(b): Electronic Working Paper Risks and Controls	
Award 1 for a valid risk identified, 1 mark for valid impact and 1 mark for control/corrective actions. (Max 9 marks)	**9**
Total marks for Q4(b)	**9**
(c): Absence of System-Generated Reconciliation Reports	
Award 1 mark per effect on reliance discussed. (Max 2 marks) Award 1 mark per audit procedure recommended. (Max 2 marks) Award 1 mark for documentation in EWPs. (Max 2 marks)	**6**
Total marks for Q4(c)	**6**
TOTAL MARKS FOR QUESTION FOUR	**25**

MODEL ANSWER TO QUESTION FOUR

Part (a): CAATs – Purpose, Procedures, and Appropriateness

CAAT Application 1: Audit Software – Interest Income Calculations

Purpose: Audit software (e.g., IDEA, ACL/Galvanize) enables the auditor to import and process large datasets from BPI's core banking system (SAP Banking Services) to independently recalculate interest income on all loan accounts. Given BPI's 280,000 accounts and 1.2 million monthly transactions, manual testing of a small sample would provide insufficient coverage. Audit software allows 100% population testing, enhancing the reliability of conclusions.

Procedures:

- Extract the full loan account dataset from SAP Banking Services, including opening balances, disbursements, repayments, interest rates, and transaction dates.
- Use audit software to independently recalculate interest income for each account based on the applicable interest rate, balance, and days outstanding.
- Compare the system-calculated interest income to HCA's independently calculated figures; identify all exceptions where the difference exceeds a materiality threshold.
- Investigate exceptions to determine whether they result from rate errors, timing differences, or system processing errors.

Most appropriate conditions: This technique is most appropriate when data is available in a structured, machine-readable format and the calculation logic is well-defined and consistent. It is particularly valuable in banking environments with high transaction volumes where manual sampling would be impractical.

Distinction: Audit software processes real client data to reach audit conclusions about the existing records. Test data (below) inserts artificial transactions to test the system's logic.

CAAT Application 2: Test Data – Credit Approval Controls

Purpose: Test data involves submitting artificial (dummy) transactions into BPI's core banking system to assess whether the IT controls operate as intended. Specifically, the team wishes to test whether the system correctly enforces loan limit overrides and dormant account reactivations – controls critical to preventing unauthorised lending.

Procedures:

- Design test transactions that simulate: (i) a loan application exceeding the authorised limit for a given credit officer (expecting the system to block); (ii) a loan limit override request without appropriate authorisation (expecting the system to reject); and (iii) a dormant account reactivation attempt (expecting the system to require dual authorisation).
- Submit the test transactions into the test environment (or, with extreme caution, into the live environment with reversals) and record system responses.
- Compare expected system responses to actual responses; investigate any instances where the system permitted unauthorised overrides.

Most appropriate conditions: Test data is most appropriate when the auditor needs to verify the programmed logic of specific IT application controls. It is most effective when performed in a dedicated test environment that mirrors the production system to avoid contaminating live data.

Distinction from audit software: Test data assesses what the system would do (future/controls-focused); audit software assesses what the system has already done (historical/evidence-focused).

CAAT Application 3: Analytical Procedures Using Data Extracts – Mobile Banking Fraud Detection

Purpose: The mobile banking platform generates a real-time transaction log. Analytical procedures using data extracts from this log can identify unusual patterns potentially indicative of fraud, such as multiple high-value transfers between the same accounts, round-number transactions, out-of-hours activity, or sudden spikes in transaction volumes from dormant accounts.

Procedures:

- Extract transaction data from the mobile banking platform's separate database and import into data analytics software.
- Perform stratification analysis by transaction value, time of day, account type, and geographic location to identify outliers and anomalies.
- Apply Benford's Law analysis to transaction amounts to identify digit frequency anomalies potentially indicative of fraudulent manipulation.
- Identify and investigate high-value or high-frequency transactions between related accounts, unusual dormant account activity, and transactions outside normal business hours.

Most appropriate conditions: Analytical procedures using data extracts are most effective where the fraud risk is high, transaction volumes are large, and pattern detection requires processing power beyond manual review. The reliability of conclusions depends on the completeness and accuracy of the data extract (see Part (c) below).

Part (b): Electronic Working Paper Risks and Controls

Issue 1: Unauthorised Upload of Client Data to Personal Cloud Storage

Risk: The junior auditor uploaded an unencrypted version of BPI's loan data (43,000 accounts) to a personal cloud storage service. This constitutes a breach of client confidentiality (IESBA Code Section 140) and potentially Rwanda's data protection legislation. Unencrypted client data on an unsecured third-party platform is exposed to interception, unauthorised access, and misuse.

Impact on audit quality and standards: ISA 230 requires that working papers be protected from unauthorised access. ISQM 1 requires firms to have policies on data security and confidentiality. This breach directly violates both requirements and could expose HCA to regulatory sanction and reputational damage.

Corrective actions:

- Immediately remove the data from the personal cloud storage and confirm deletion.
- Assess whether any unauthorised access or data breach has occurred; if so, notify BPI and consider notification obligations under applicable data protection law.
- Issue immediate written guidance to all team members on approved data storage protocols (TeamMate+ only) and the prohibition on using personal cloud storage for client data.
- Consider formal disciplinary action against the junior auditor; document the incident in the engagement file.

Issue 2: Working Papers Marked 'Reviewed and Approved' Without Review Notes

Risk: Two sections (payroll substantive testing and IT general controls review) have been marked as 'reviewed and approved' by the senior without any documented review queries or notes. This is a false representation of the review process and undermines the integrity of the working paper record.

Impact on audit quality and standards: ISA 220.17 requires that engagement quality procedures include review of work performed and documentation. ISA 230 requires that documentation is sufficient to enable an experienced auditor to understand the work performed, conclusions reached, and reviewer's judgements. An approval without documented notes provides no evidence that review actually occurred. This creates a documentation gap that would be identified in a regulatory inspection.

Corrective actions:

- Require the senior to perform a genuine re-review of both sections and document specific queries, conclusions, and sign-off rationale in TeamMate+.
- Implement a firm policy that 'reviewed and approved' status cannot be set without a minimum number of documented review notes or a documented nil-exception conclusion.
- The engagement partner should perform a supervisory review of all sections approved without notes before the audit report is issued.

Issue 3: TeamMate+ Does Not Enforce Timestamps or Mandatory Sign-Off Fields

Risk: The version of TeamMate+ deployed does not automatically timestamp working papers and does not enforce mandatory sign-off fields before a section can be closed. This means the chronology of

review and approval cannot be reliably established, and sections can be 'completed' without the required authorisations.

Impact on audit quality and standards: ISA 230 requires that working paper documentation enable reconstruction of the audit timeline and establish who performed and reviewed each procedure. Without enforced timestamps, the firm cannot demonstrate compliance with review obligations. This is a systemic platform risk that affects the entire engagement.

Corrective actions:

- Escalate to the firm's IT and quality management function: upgrade to a version of TeamMate+ that enforces timestamps and mandatory sign-off fields, or implement a compensating manual log of all approvals.
- In the interim, require all team members to manually record the date and time of completion and review in each working paper section until the technical issue is resolved.
- Document the platform deficiency and the compensating controls in the engagement quality management file for ISQM 1 purposes.

Part (c): Absence of System-Generated Reconciliation Reports

Effect on the Auditor's Ability to Place Reliance on Transaction Data:

The mobile banking platform transaction log is stored in a separate database from the core banking system (SAP), and management represents that an automated nightly reconciliation process exists. However, the engagement team has been unable to obtain system-generated reconciliation reports and has only received a summary Excel file maintained by the IT department, with no audit trail of manual adjustments to reconciliation differences.

This significantly limits the audit team's ability to rely on the mobile banking transaction data because:

- Without system-generated reconciliation reports, there is no independently verifiable evidence that the automated reconciliation has actually been performed or that it has identified and correctly resolved all differences between the two systems.
- The manual Excel summary maintained by the IT department (which reports administratively to the CFO – see also the independence concern noted above) could have been manipulated to conceal reconciliation differences. There is no audit trail of adjustments, which is a significant internal control deficiency.
- The completeness and accuracy of mobile banking revenue and transaction data included in the financial statements cannot be confirmed without an independent, system-generated reconciliation.

Specific Audit Procedures to Address this Gap:

- Request IT access to the automated reconciliation system to independently run and review system-generated reconciliation reports for a sample of daily reconciliation cycles; assess whether the automated process is functioning as described by management.
- Independently extract the transaction log from the mobile banking database and the core banking system (SAP) for a selected period and perform a manual independent reconciliation; compare to management's summary Excel file to identify unrecorded adjustments.

- Enquire of the IT department and internal audit about the nature, frequency, and resolution of reconciliation exceptions; obtain a log of all manual adjustments made during the year and assess their legitimacy and authorisation.
- If the automated reconciliation process cannot be verified, expand substantive testing of mobile banking revenue by performing detailed transaction-level testing rather than relying on the reconciliation as a control.

Documentation in Electronic Working Papers:

HCA must document in TeamMate+: (i) the specific limitation identified (absence of system-generated reports); (ii) the alternative procedures performed and their results; (iii) the auditor's assessment of the risk of material misstatement arising from this limitation; and (iv) the senior's and partner's conclusions on sufficiency of evidence. Per ISA 230, the documentation should be sufficient to enable an experienced auditor to understand how the team addressed this specific control gap. If the gap cannot be adequately resolved, the documentation should support a scope limitation disclosure in the auditor's report and the resulting modified opinion.

End of marking guide and model answers