CERTIFIED PUBLIC ACCOUNTANT

OPERATIONAL LEVEL EXAMINATIONS

LG2.1 ETHICS, LAW AND GOVERNANCE

DATE: WEDNESDAY 27, MAY 2026

INSTRUCTIONS:

1. Time allowed: **3 hours and 15 minutes**
2. The examination has **two** sections: **A&B**
3. Section **A** has **30 compulsory** multiple-choice questions equal to **2 marks** each.
4. Section **B** has **5 compulsory** multiple- task questions equal to **8 marks** each.
5. Questions marked **"SELECT ALL THAT APPLY"** have multiple correct answers. Candidates must choose all correct options in order to be awarded 2 Marks.
6. The question paper should not be taken out of the examination room.

SECTION A

QUESTION ONE

What is the link between law and morality?

A Both moral and legal rules are enacted by the public administration to its mission and goals in the governance of a society.

B Most legal rules are derived from morality. Law-makers seeking to enact new laws to regulate human conduct usually convert into law their deeply held moral convictions.

C Law and morality have the same purpose and scope as all intend to impose sanctions such as compensation, reparation, fire and term imprisonment.

D The legal and moral rules are binding and tend to impose strict requirements where breach is followed by relevant sanctions.

(2 Marks)

QUESTION TWO

The constitution is above other laws and determines how those laws are ranked

What is the hierarchy of the domestic laws under Rwandan Law?

A Constitution; Organic law; Ordinary law; International treaties and agreements ratified by Rwanda; Orders and regulations provided for by the law.

B Constitution; International treaties and agreements ratified by Rwanda; Organic law; Ordinary law; Orders and regulations provided for by the law

C Constitution; Organic law; International treaties and agreements ratified by Rwanda; Ordinary law; Orders and regulations provided for by the law.

D Constitution; Ordinary law; Organic law; International treaties and agreements ratified by Rwanda; Orders and regulations provided for by the law.

(2 Marks)

QUESTION THREE

What is a Decree-Law?

A A Decree-law is an ordinary law passed by a Parliament at its first session following the election of its members.

B A Decree law is Presidential Order enacted by the President and approved by the cabinet sitting in its first session.

C A Decree-law is a law enacted by the President of the Republic having legal binding force as ordinary law when the parliament is in absolute impossibility to hold a session which has to be approved by or adopted by the Parliament at its next session.

D A Decree-law is an ordinary law promulgated by the President of the Republic and published in the official gazette.

(2 Marks)

QUESTION FOUR

What is the scope of the administrative law? (SELECT ALL THAT APPLY)

A Administrative law does not include rules of law that determine the powers and prerogatives of the executive as well as its relationship with citizens

B Administrative Law also known as public administration law is a set of legal rules and principles which regulate the organisation, the functioning and the control of the executive administration.

C Administrative law applies to public officials and public agencies and also provides for procedures to challenge administrative decisions.

D Public administration is the government tool which is used to maintain peace and order in the community, to protect peoples' lives and their properties as well as implement the government policy.

(2 Marks)

QUESTION FIVE

What is requisition by public administration?

A Requisition refers to the competence of the administration to formally demand property (movable or immovables) or services owned by private individuals for official use without compensation which may not necessarily cover the actual prejudice incurred.

B Requisition may be resorted to in cases of extreme necessity or emergency to save a public situation from deteriorating and the requisitioned property shall be returned after the situation has normalised with fair compensation

C The property requisitioned by the administration shall remain the property of the administration for good even after the situation has normalised so that the public authority can continue to use it.

D The property requisitioned by the administration cannot be used if the government has not paid prior and fair compensation the aggrieved person even if the emergency or extreme is not justified.

(2 Marks)

QUESTION SIX

What does "offer" mean under Rwanda contract Law? (SELECT ALL THAT APPLY)

A An offer is a manifestation of a willingness to enter into a contract made in a manner so as to justify another person in understanding that his or her assent is invited and will conclude the contract.

B It is an indication of a willingness to agree to the terms of the offer which generally operates as a rejection of the initial offer and suggests a new offer.

C The offer terms should not provide a sufficient basis for determining the existence of a breach and for providing an appropriate remedy.

D An offer may propose the formation of a single contract by a single acceptance or formation of a number of contracts by separate acceptance.

(2 Marks)

QUESTION SEVEN

A sale is one of the contracts governed by the laws in Rwanda

What is the difference between the contract of sale and other agreements?

A A sale is the only contract which aims to ensure the transfer of ownership.

B A sale is an agreement by which one person binds himself to deliver a thing without necessarily payment of the price.

C A sale requires that one of the parties pays a symbolic price which is always far below from the actual value of the asset

D The validity of sale agreement requires its conclusion before the notary of where the property is becomes effective after transfer of ownership.

(2 Marks)

QUESTION EIGHT

Explicit agency means:

I. It is a volunteering act performed by one person on behalf of another but without consent or appointment by the other party.

II. It is an agency created by the manifest conduct or behaviour showing that indirectly the person is acting as agent of another person without express existence of agency contract.

III. It is an agency created by contract between the principal and the agent which can be oral or in written form.

IV. It is a contract by which an agent is acting in the name and on behalf of the principal and his acts will have the legal value and binding effect as if they were performed by the principal him/herself through a well detailed and written contract.

Which of the statements above describe the definition of explicit agency?

A I and II only.

B II, and III only.

C II and IV only.

D III and IV only.

(2 Marks)

QUESTION NINE

Can a fixed term employment contract be terminated by either party before the expiry date in Rwanda? (SELECT ALL THAT APPLY).

A No, A fixed term employment contract cannot be terminated in any circumstances before the expiry of the contract period.

B Yes, by mutual consent of the parties or justifiable reasons by giving a written notice to other party.

C Yes, in the event that the probation period proves that an employee is not competent based on written performance evaluation and notified to the employee, the employer terminates the employment contract without notice or in case of gross misconduct committed by the employee.

D Yes, if employment contract comes to an end at the expiry of the duration set in the agreement.

(2 Marks)

QUESTION 10

What does "piercing the corporate veil" mean? (SELECT ALL THAT APPLY)

A The court can lift the corporate veil and hold shareholders or directors of the company accountable in the event of misuse of the company's assets for shareholders' or directors' private gain.

B Piercing the corporate veil refers to a special instance where the court holds the shareholder or a director of a corporation personally liable for the corporation's liabilities or debts.

C Piercing the corporate veil refers to a situation where the company's assets are misused or mismanaged by the management of that company for private gain.

D Piercing the corporate veil means reallocation of the company's asset from one account to another in the books of the company.

(2 Marks)

QUESTION 11

The law classifies the companies into two categories: Private company and Public Company.

What are the characteristics of a public company? (SELECT ALL THAT APPLY)

A A public company can be unlimited and listed on stock exchange under capital market

B Shares of a public company are fully transferable.

C The number of shareholders is unlimited.

D The name a public company is ended by "Public Limited Company or PLC".

(2 Marks)

QUESTION 12

By which procedure can shareholders terminate their company?

A Shareholders can terminate their company by ordinary resolution voted by 100% of the shareholders in their ordinary general meeting notwithstanding the Companies Act or by the company's incorporation documents.

B A company can be terminated by special resolution of shareholders entitled to vote passed by at least a seventy-five percent (75%) majority vote as per the Companies Act or the company's incorporation documents.

C Shareholders can terminate their company by ordinary resolution of shareholders entitled to vote passed by a simple majority of votes.

D Shareholders cannot terminate a company because a company is a legal person with personality different that of its owners.

(2 Marks)

QUESTION 13

The National Bank of Rwanda (BNR) is the regulator of the financial sector in Rwanda.

What are the main roles and functions of the National Bank of Rwanda? (SELECT ALL THAT APPLY)

A Credit operations controller
B Lender of the last resort
C Implementor and guardian of monetary policy
D Borrower of the last resort

(2 Marks)

QUESTION 14

What is the required composition of the Board of Directors for non-financial company? (SELECT ALL THAT APPLY)

A A private company can have one or more directors of whom at least one must be ordinarily a resident in Rwanda.
B Any company shall have at least two (2) directors where at least one director must be a resident of Rwanda.
C A company is allowed to have any number of Board members provided that the majority are non-executive Directors with different skills and academic level.
D In a public company, a majority of directors must be non-executive directors and at least one-third (1/3) of the directors must be independent directors

(2 Marks)

QUESTION 15

A public company is required to have a company secretary appointed by the Board of Directors.

What are the main duties of the Company Secretary? (SELECT ALL THAT APPLY)

A Advise directors on their responsibilities and powers;
B Inform directors about all the necessary regulations or those which may affect the meetings of shareholders and of the Board of Directors, reports thereof and submission of all company documents required by the law to relevant organs as well as consequences due to the failure to comply with such regulations
C Ensure that minutes of the meetings of shareholders or the Board of Directors are well prepared and that registers provided for by the incorporation documents are accurately kept;
D Take an interim decision to replace a director in case of death, resignation or permanent total incapacity that prevent a director to attend meetings.

(2 Marks)

QUESTION 16

A professional accountant shall comply with the following fundamental principles. What are those principles?

A Integrity, objectivity, skills and diligence, confidentiality and professional behaviour

B Integrity, objectivity, professional competence and accuracy, personal judgment and professional behaviour.

C Integrity, objectivity, ethical judgement, confidentiality, professional behaviour and error free.

D Integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

(2 Marks)

QUESTION 17

What are the attributes of the integrity principle for professional accounts? (SELECT ALL THAT APPLY)

A It imposes an obligation of fair dealing and truthfulness to all professional accountants

B It requires a professional accountant not to be disassociated with false or misleading reports, communications or other information.

C It requires all professional accountants to be straightforward and honest in all professional and business relationships.

D It imposes on a professional accountant an obligation of refraining from reporting material omissions or misleading statements or any kind of misrepresentation.

(2 Marks)

QUESTION 18

What does the principle of professional competence and due care mean for a professional accountant? (SELECT ALL THAT APPLY)

A The principle implies that the professional accountant shall possess knowledge and skills not necessarily professional certificate provided that the accountant has a certain academic level in accounting.

B It imposes an obligation on a professional accountant to maintain professional competencies and required skills to discharge of his/her duties

C The principle means that a professional accountant has to know his/her boss (Know Your Boss rule) and adopt useful strategies to deal with situations that may impair his/her objectivity.

D It requires a professional accountant to act with high due diligence in the compliance with relevant technical and professional standards.

(2 Marks)

QUESTION 19

Which kind of professional behaviour should a professional accountant adopt? (SELECT ALL THAT APPLY)

A Professional accountants must avoid any behaviour that can tarnish or impair their profession and protect their image inside and outside the organisation except for the case they are involved in family issues or private life related matters.

B Professional accountants must avoid any behaviour that can tarnish or impair their profession and protect their image inside and outside the organisation without any exception.

C The professional accountants' acts must be in compliance with the applicable laws, regulations, guidelines, internal policies and procedures and relevant standards

D Professional accountants must not knowingly engage in any business, occupation or activity which impairs or might impair the integrity, objectivity or good reputation of the profession.

(2 Marks)

QUESTION 20

What is the importance of establishing an internal code of conduct within an organisation? (SELECT ALL THAT APPLY)

A The internal code of conduct ensures the implementation of relevant policies such as anti-fraud measures, and fostering a strong whistleblowing culture within the organization.

B A code of conduct puts in place an internal organisation structure that clearly defines the relationship and communication between Board of Directors and executive management.

C The code of conduct defines what is allowed, prohibited, restricted, protected and consequences in the event of breach.

D The internal code of conduct outlines the reporting flow and how business governance matters are handled within the organisation.

(2 Marks)

QUESTION 21

Last week, Ms. Viola being 17 years old has obtained a telephone iPhone 16 as gift from her boyfriend. She sold the telephone to a Businessman called Augustin. The father of Viola has started the process to challenge this sale agreement alleging that it is not valid.

What is the likely violated condition that can render this contract void?

A Object of the contract

B Licit cause

C Consent

D Capacity

(2 Marks)

QUESTION 22

What are the reasons justifying the prerogative of public administration not being compelled to fulfil its obligations?

A Public domain property can be violable and transferred to private investors.
B The state can never be insolvent and the public property is meant to ensure respect of the principles of continuity and regularity underlying all public services.
C Public property can be subject to seizure if its auction may not affect the continuity of public services and public interest.
D Creditors of the public administration concerned with their personal interests can be allowed to divert public property from their use solely if the seizure does not ultimately affect the general interest.

(2 Marks)

QUESTION 23

An offer is a manifestation of a willingness to enter into a contract made in a manner to justify another person in understanding that his or her assent is invited and will conclude the contract. On the other hand, a counter-offer:

I. Is an indication of a willingness to agree to the terms of the offer which generally operates as a rejection of the initial offer and suggests a new offer.

II. Is an offer made by an offeree to his offeror relating to the same matter as the original offer but on terms or conditions different from those contained in the original offer.

III. Is both a rejection of the terms of the original an offer and propose new offer that materially changes the terms of the original offer.

IV. Does not necessarily mean the rejection or amendment of the terms of the initial offer but an acceptance by the offeree which can even be done through silence or inaction.

Which of the statements above describe the meaning a counter-offer?

A I, II and III only.
B I, II and IV only.
C I, III and IV only
D II, III and IV only

(2 Marks)

QUESTION 24

What is the scope of application of employment laws in Rwanda?

A All employees in public sector are governed by the general status of public servants without any distinction while employment in private sector is governed by the labour law of 2018.
B The employment in public sector is regulated by the general statute governing public servants while non-permanent public servants and employment in private sector are governed by the labour law of 2018

C Security organs and other entities determined by the Presidential Order or the Prime Minister's Order are governed by the special statutes and labour law of 2018.

D Labour law regulates solely employment in private sector.

(2 Marks)

QUESTION 25

What is the meaning of "in duplum rule" in terms of consumer protection perspective?

A A financial service provider can recover interests not exceeding the triple of outstanding balance of principal debt, in case a financial service consumer fails to repay as per his or her contract with a financial service provider.

B A financial service provider must not exceed outstanding principal debt, in case of repayment default by a financial service consumer

C A financial service provider must recover interests not exceeding the outstanding balance of principal debt, in case a financial service consumer fails to repay as per his or her contract with a financial service provider.

D A financial service provider can recover more than the cost incurred while recovering the total amount from the debtor of the financial service provider

(2 Marks)

QUESTION 26

Which type of company is required to have a company Secretary?

A Under Rwanda Companies Act, a public company is required to have a company secretary who must be a Rwandan resident while it is optional for a private company.

B Under Rwanda Companies Act, a private company is required to have a company secretary who must be a Rwandan resident while it is optional for a public company.

C Under Rwanda Companies Act, both a public company and private company are required to have a company secretary who must be a Rwandan resident

D Under Rwanda Companies Act, both a public company and private company may have a company secretary who may be a Rwandan resident.

(2 Marks)

QUESTION 27

The constructional rights are classified into three categories namely: (i) civil and political rights; (ii) economic, social, and cultural rights; and (iii) solidarity rights.

What is the main purpose of rights included in first category also known as fundamental human rights?

A To guarantee individual's rights to get involved in public affairs and the affairs of the state.

B To uphold the sanctity of the individual before the law and guarantee his/her ability to participate freely in a civil, and political society.

C To maintain and promote sub-national cultural affiliations and collective identities, and protect minority communities against the incursions of national assimilationist and nation building-projects.

D To guarantee that all individuals and groups have the right to share in the benefits of the earth's natural resources, and that are made through processes and economic growth, expansion, and innovation.

(2 Marks)

QUESTION 28

What is the difference between the obligation of result and obligation of means?

A The obligation of result is attached itself to the assets of the debtor in general and its breach or in-execution entitles the creditor to sue and recover against this general property while the obligation of means is associated with a specific piece of property, which entitles the creditor of that obligation to sue and recover against that specific property no matter who the actual owner is.

B The obligation of means is that by which the debtor commits himself using of the adapted means, to be careful and diligent in the performance of a service, without guaranteeing a given result while the obligation of result is that by which the debtor commits himself/herself to provide the promised service which consists of a given result.

C The non- compliance or non-performance of obligation of result can be enforced by courts and entail damages/remedies whereas an obligation of means) is not enforceable under the law and non-compliance has only moral sanction.

D The obligation of result is that by which the debtor commits himself using the adapted means, to be careful and diligent in the performance of a service, without guaranteeing a given result while the obligation of means is that by which the debtor commits himself/herself to provide the promised service which consists of a given result regardless of the means used.

(2 Marks)

QUESTION 29

In which circumstances may a court pierce the corporate veil?

A Directors' act in the best interest of the company with due diligence and avoid any transaction that can harm the company's business.

B Company's inability to pay debts.

C Misuse of the company's assets for shareholders' or directors' private gain.

D Adequate management of the company's assets.

(2 Marks)

QUESTION 30

A professional accountant in public practice shall exercise judgment to determine how best to deal with threats that are not at an acceptable level, whether by applying safeguards to eliminate the threat or reduce it to an acceptable level or by terminating or declining the relevant engagement.

What are the categories of threats?

A Self-interest, self-review, advocacy, familiarity and intimidation.

B Corruption, self-review, advocacy, familiarity and intimidation

C Self-interest, superior commend, advocacy, familiarity and intimidation.

D Self-interest, self-review, friendship, familiarity and intimidation

(2 Marks)

SECTION B

QUESTION 31

Isango Logistics Ltd is a private company based in Kigali providing courier and warehousing services to clients across Rwanda. The company employs Mr. Habineza on a written contract of employment as a delivery driver. The contract states that Mr. Habineza is required to follow daily routing instructions issued by the Operations Manager and to use only company-owned vehicles when carrying out deliveries.

In addition, Isango Logistics Ltd has engaged Mr. Karangwa, an independent mechanic who runs his own garage, to carry out vehicle servicing whenever the company's fleet requires repairs. Mr. Karangwa decides his own working hours, uses his own tools, and invoices the company at the end of each month for the work completed.

On a recent afternoon, while making a scheduled delivery to a client in Huye District, Mr. Habineza drove negligently and caused a road accident in which a pedestrian sustained serious injuries. The injured pedestrian now intends to claim compensation from Isango Logistics Ltd, arguing that the company should be held responsible for the conduct of its driver. The directors of Isango Logistics Ltd are uncertain about their legal position and have approached you for advice.

Required:

a) **Distinguish between a contract of service and a contract for service, applying the distinction to Mr. Habineza and Mr. Karangwa** (3 Marks)

b) **Explain TWO obligations owed by Isango Logistics Ltd to Mr. Habineza as its employee under Rwandan labour law** (2 Marks)

c) **Define vicarious liability and advise whether Isango Logistics Ltd may be held liable for the injuries caused to the pedestrian** (3 Marks)

(Total: 8 Marks)

QUESTION 32

Karisimbi Beverages Ltd is a private limited company incorporated in Rwanda, engaged in the production and distribution of bottled drinks. The company was established with an authorised share capital of FRW 500,000,000 divided into 500,000 ordinary shares of FRW 1,000 each, of which 300,000 shares have been issued and are fully paid.

In order to finance the construction of a new bottling plant, the Board of Directors has proposed to raise additional funds through two methods. First, the company will issue 100,000 new ordinary shares, which the Board has decided to offer directly to a group of outside investors at a favourable price. Second, the company intends to borrow FRW 600,000,000 from a commercial bank by issuing debentures secured against the company's assets.

At the most recent general meeting, one of the shareholders, Mr. Nshuti, expressed concern that he was not given the opportunity to subscribe for any of the new shares before they were offered to outside investors. Another shareholder, Ms. Mukamana, has questioned why the Board declared a dividend last year despite the company having reported a small accumulated loss in its financial statements. The directors have approached you for advice on the legal issues raised.

Required:

a) **Distinguish between share capital and loan capital, and explain the relationship that each type of capital creates between the holder and Karisimbi Beverages Ltd** (3 Marks)

b) **Define pre-emption rights and advise whether Mr. Nshuti has a valid complaint regarding the issue of the new shares** (3 Marks)

c) **Explain the rules relating to the distribution of dividends and state whether the directors acted lawfully in declaring a dividend in the circumstances described by Ms. Mukamana** (2 Marks)

(Total: 8 Marks)

QUESTION 33

Bigoga Construction Ltd is a private limited company that has operated in the construction sector in Rwanda for over ten years. Following the cancellation of two major government contracts and a sharp decline in private orders, the company has been unable to pay its suppliers and bank loans for several months. Outstanding debts now exceed the realisable value of its assets, and several creditors have lost confidence in the company's ability to continue trading.

At an extraordinary general meeting, the shareholders passed a special resolution that the company should cease trading and that its affairs should be wound up. A liquidator has been appointed to take charge of the process. Some of the unsecured creditors are concerned that the secured creditors and the company's remaining shareholders may be paid before them, while the directors of the company would prefer to explore an option that allows the business to continue operating in some form rather than being wound up entirely.

Required:

a) **Define insolvency and distinguish between compulsory winding up and voluntary winding up** (3 Marks)

b) **Explain TWO key duties of the liquidator appointed to manage the affairs of Bigoga Construction Ltd** (2 Marks)

c) **Outline ONE alternative to winding up that may be available to Bigoga Construction Ltd, and explain TWO consequences of winding up for unsecured creditors** (3 Marks)

(Total: 8 Marks)

QUESTION 34

Rugali Microfinance PLC is a financial services company licensed to operate in Rwanda. The Board of Directors has recently observed a series of incidents that have raised concerns about ethical conduct within the organisation. These incidents include the unauthorised use of customer information by junior staff, two cases of suspected falsification of loan application documents, and reports that some employees have witnessed irregularities but were unwilling to come forward for fear of being identified or victimised.

In response, the Board has decided that the company should formally adopt a written corporate code of ethics and introduce a whistleblowing policy applicable to all employees, contractors, and members of management. The Human Resources Director has been assigned to lead the initiative and has approached you, as a CPA professional, for guidance on how the code and the whistleblowing policy should be designed and implemented.

Required:

a) **Explain the purpose of a corporate code of ethics and outline THREE matters that should typically be addressed in the content of such a code** (3 Marks)

b) **Advise the Human Resources Director on the key features that should be included in an effective whistleblowing policy at Rugali Microfinance PLC** (3 Marks)

c) **Explain TWO benefits that the adoption of the code of ethics and the whistleblowing policy will bring to Rugali Microfinance PLC and its stakeholders** (2 Marks)

(Total: 8 Marks)

QUESTION 35

Sangwa Holdings PLC is a public company whose shares are listed on the Rwanda Stock Exchange. The company operates in the trading and investment sector and is currently in advanced negotiations to acquire a majority stake in a competitor. The information regarding the proposed acquisition is highly confidential and has not yet been disclosed to the market.

Mr. Mugisha, the Chief Finance Officer of Sangwa Holdings PLC, has used his knowledge of the proposed acquisition to purchase a substantial number of the company's shares for his personal account, expecting their value to rise once the acquisition is publicly announced. In addition, the internal auditor has flagged several large cash deposits made into the company's bank account by clients whose source of funds cannot be properly explained, as well as a suspicious payment of FRW 15,000,000 made by a department head to a public official in order to accelerate the issuance of a regulatory licence required for the acquisition.

The Board of Directors is concerned about the legal and reputational consequences of these matters and has requested guidance on the relevant legal framework and the safeguards the company should put in place.

Required:

a) **Explain the nature of insider dealing and advise whether the conduct of Mr. Mugisha amounts to insider dealing under Rwandan law** (3 Marks)

b) **Identify TWO legal safeguards against money laundering that Sangwa Holdings PLC should apply in relation to the unexplained cash deposits** (2 Marks)

c) **Explain the offence of bribery and corruption with reference to the FRW 15,000,000 payment, and state ONE measure the Board may put in place to prevent such conduct in the future** (3 Marks)

(Total: 8 Marks)

End of question paper

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