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## **CERTIFIED PUBLIC ACCOUNTANT**

### **ADVANCED LEVEL 1 EXAMINATIONS**

#### **A1.2: AUDIT PRACTICE AND ASSURANCE SERVICES**

**DATE: FRIDAY 27, FEBRUARY 2026**

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#### **INSTRUCTIONS:**

1. Time Allowed: **3 hours 45 minutes** (15 minutes reading and 3 hours 30 minutes writing).
2. This examination has **two** sections; **A & B**.
3. Section **A** has **one Compulsory Question** while section **B** has **three optional questions** to choose any **two**.
4. In summary attempt **three questions**.
5. Marks allocated to each question are shown at the end of the question.
6. Show all your workings where necessary.
7. The question paper should not be taken out of the examination room.

## **SECTION A**

### **QUESTION ONE**

a) You are an audit manager in Tuyisenge & Associates, a local firm of Certified Public Accountants of Rwanda. You are responsible for the planning of engagement personnel and making assignments of the firm's personnel to audit engagements. The following matters have arisen in relation to audits of three clients of Tuyisenge & Associates:

1. The Finance Director of Rwanda Motors Co (RMC), a private limited company has requested that only certain staff should be assigned to the audit team that will be conducting the audit of RMC. which commences next week. The Finance Director is making this request on grounds that this will prevent un-necessary disruption to RMC's staff in the finance department during the audit process. In particular, the Finance Director requested that Kayitesi should be assigned as the audit supervisor of the team and that no new audit trainees should be added to the team this year. Kayitesi has been the audit supervisor on the audit of RMC's financial statements for the last consecutive three years.

2. Alexis was one of the audit trainees assigned to the last audit of Phonex Co, a private limited telecommunication company for the year ended 30 June 2023. Alexis resigned from Tuyisenge & Associates on 30 November 2023 to pursue a civil engineering course. Fiona was a junior member of the audit team on the same audit of Phonex Co as Alexis. Fiona has informed you that on the day Alexis resigned, he informed her that during the last audit of Phonex Co, he ticked-off all schedules of audit work assigned to him without carrying out the actual audit work.

3. Mutabazi, an audit senior, has been assigned to the last three consecutive audits of Royce Co, a listed company on the Rwanda stock market. The last audit report for the year ended 30 June 2023 of Royce Co reported a significantly reduced profit for that year and this resulted in a significant drop in the company listed price for its shares from October 2023 immediately after the audit report was published. Mutabazi has informed you that his father owned 10,000 ordinary shares in Royce Co but sold all the shares at their average market price in the last week of September 2023, which was only a few days before the audit report of Royce Co was published. The market price of the shares of Royce Co immediately fell down significantly in the early October 2023 after the publication of the audited accounts. You have confirmed that Mutabazi did not previously know that his father held shares in Royce Co.

#### **Required:**

On each scenario above of Tuying & Associates' clients, **comment on the practice management and ethical issues arising from the above matters and any implications these may have on Tuyisenge & Associates' policy for allocation of assignments to the firm's personnel.** (20 Marks)

b) You are a manager in Jean & Kalisa Partners, a local firm of Certified Public Accountants of Rwanda. Jean & Kalisa Partners has a formal agreement with four other local firms of professional accountants as a group of accountancy firms to support each other in maintaining an adequate System of Quality Management (SoQM). Jean & Kalisa Partners is currently the auditor of Rusizi Tertiary & Vocational College (RTVC), a private large-sized tertiary institute located in Rusizi where it provides a variety of vocational training courses to the youth in Rwanda. RTVC is a new client of your firm and you are currently auditing the institute's financial statements for the year ended 31 December 2023.

The final audit of RVTC commenced four (4) weeks ago and it is in the final week of the field work. You as the audit manager together with the engagement partner are scheduled to review of the audit team's working papers next week. As part of the quality management procedures for Sabiti & Co, an external quality control reviewer ("an external reviewer") has just visited the audit team at RVTC's head office in Rusizi to conduct quality management reviews of the audit process applied by Sabiti & Co on the current ongoing audit of RVTC's financial statements for the year ended 31 December 2023.

The audit team assigned to the audit includes a field team which is currently based at RVTC's offices comprising of the audit supervisor (as the team leader), an audit senior and a trainee.

The external reviewer has shared the following preliminary findings from his visit that require your immediate follow up action:

1. On the audit planning checklist, the audit senior has crossed through the analytical procedures section and written "*analytical procedures are not applicable as RVTC is a new audit client*". The audit planning checklist has not been signed off as having been reviewed by the engagement partner.
2. The audit supervisor last visited RVTC's offices in Rusizi when the final audit commenced four (4) weeks ago. The audit supervisor spends most of his time working from Sabiti & Co's audit offices based in Kigali. In addition to being the audit supervisor on the audit of RVTC, he is currently allocated as the audit supervisor to five (5) other assignments that all have tight deadlines to complete.
3. The audit supervisor has informed the external reviewer that: "The financial statements of RVTC for the year ended 31 December 2022 disclosed a contingent liability for a pending litigation which was classified so as no reliable measure was available at the reporting date (31 December 2022). However, the legal advisor of RVTC shared with the audit supervisor an official letter indicating that the legal case was settled out of court for FRW 450 million on 1 March 2023. The amount of FRW 450 million was assessed to be material to the RVTC's financial statements for the year ended 31 December 2022. The auditor's report on the financial statements for the year ended 31 December 2022 was unmodified and signed on 15 March 2023. The audit supervisor believes that the management of RVTC is not aware of the error and has not brought it to their attention"

**Required:**

**Comment on the implications of the external reviewer's findings for Sabiti & Co's System of Quality Management (SoQM) regarding the conduct of the audit for RVTC. (15 Marks)**

c) You are a manager in the advisory department of Hakizimana and Associates. Your firm's audit client, Global Investments Ltd (GIL) is a large company that operates as a group of investment and property management companies. These companies are subsidiaries to GIL and are all based in Rwanda and in addition, GIL has interests overseas. The group applies international financial reporting standards as its accounting framework. Some of the subsidiary companies of GIL are audited by your firm while others are audited by other audit firms.

GIL has a small internal audit department. The Board of Directors of GIL comprises of Augustin Muhire (the Chief Executive Officer of GIL), the heads of three departments of the main activities of the company (i.e., departments that comprise of property, investment and marketing) and Daniel Mugabe who is the only non-executive director on the Board. You are aware that Daniel is also Augustin's brother-in-law and due to his busy schedule, Daniel rarely attends the meetings for the Board of Directors. Augustin as the group's CEO, is the driving force behind the business operations and decision making at GIL.

Augustin has contacted your firm for advice regarding the establishment of an audit committee for GIL. The need for GIL to establish an audit committee has just emerged recently after a formal letter that was received from Nike Insurance Ltd, a company that holds a significant number of shares in GIL. Augustin has welcomed the idea to establish an audit committee for GIL and has immediately alerted the other directors of the Board that he is ready to head the audit committee, but he is not sure of what his role would serve as the head of the audit committee. He has therefore approached your firm for further guidance on this issue.

**Required:**

**Draft a letter to Augustin Muhire in which you explain:**

- i) Appropriate suggestions regarding the composition of an audit committee for GIL.**  
(3 Marks)
- ii) The responsibilities an audit committee of GIL will have regarding the support /supervision of the internal audit department and the external auditors of GIL.**  
(10 Marks)

*Note: Professional marks for the letter format (1 mark) and clarity / quality of the presentation (1 mark) shall be awarded to the part (c) of the question* (2 Marks)

**(Total: 50 Marks)**

## **SECTION B**

### **QUESTION TWO**

You have been appointed as Chief Financial Officer of MERANEZA Services Ltd, a company specialized in Maize flour production and related products. MERANEZA Services Ltd is among the leading Maize flour production companies in Rwanda. Among the company's strategic plans is to start export of high-quality maize flour in United States of America by January 2026. The following is the current situation in the company:

#### **Outcome from previous audit report**

The previous audit discovered a fraudulent transaction passed by the payable ledger accountant and the company lost 40 million due to this fictitious transaction. The Managing Director attributed this to delay in aligning the company performance measurement with the industry practice and new emerging technology in the market.

He has emphasized that all staff should use professional skepticism in carrying out their work and any material misstatement should be investigated fully and timely without waiting for external audit.

#### **Persistent increase in operating cost**

MERANEZA Services Ltd has been incurring high operating cost in the past five years. The costs are attributed to high research and development expenditure incurred and charged to income. The company requires large investments in equipment and has borrowed heavily in the recent past to achieve this. The bankers are reluctant to give additional financing as they are concerned about the going concern aspects of the company.

#### **Litigation cases**

MERANEZA Services Ltd hired an independent consultant for review of performance measurement in the company, compare the outcome with the industry practice and communicate the outcome to the company shareholders for approval at cost of 200 million. The consult was paid in full in advance and started services but after two weeks the consultant disappeared without even issuing the first draft. The company submitted the case under court and unfortunately lost the case as the payment was done contrary to the contract terms and conditions.

The company has been experiencing labor disputes in the past few months resulting in the company not being able to pay salaries on due dates. The hearing is not yet scheduled

#### **Board of Directors' concerns**

It would be necessary to carry out a risk assessment and understand the performance measurements (KPIs). Through KPIs, the MERANEZA Services Ltd can gain assurance from performance measurement. This will help the board of directors to set a series of measures within the company designed to ensure that employees are accountable to management for their performance.

It was evident from the deliberations in the previous board meeting that a large majority of the members did not understand what is the performance measurement (KPIs) and its component. They were particularly not happy that management declared dividend at decreasing rate for the last five years and the fact that the same meeting resolved performance measurement to be among agenda items that will be discussed in the next board meeting.

The board meeting was tabled for the discussion on the company's trend for the last two years and provide guidance on new strategic measures for the upcoming years. The Chief Financial Officer was required to prepare a trend for the last two years, analyze & interpret the results and present to the board of directors.

The following is an extract from the analysis made by the Chief Financial Officer to be discussed in the next board of directors' meeting:

**Chief Financial Officer's workings (extract)**

<b>Description</b>	<b>12 months ended 2023</b>	<b>12 months ended 2024</b>	<b>Industry Average</b>
Gross Profit to sales	43.01%	42.81%	45.1%
Net Profit to sales	9.5%	9.3%	12%
Net Profit before tax on assets employed	13.65%	15%	
Working capital ration	3.52	3.51	3.6:1
Current ration	2.00	1.06	1.2:1
Inventory turnover	6.2	5.1	5.7
No of days in receivables	38	33	31 days
No of days in inventory	96	75	74
Asset turnover	1.59	1.79	1.79:1

**Required:**

**a) Describe the possible fraud and error conditions and responses to risk if the analytical procedures reveal the following:**

- i) Increase in current ratio.** (6 Marks)
- ii) Increase in inventory turnover.** (1 Mark)
- iii) Decrease in inventory turnover.** (1 Mark)
- iv) Increase in gross margin.** (2 Marks)

**b) Briefly discuss the main types of performance measurements (KPIs) and provide at least THREE metrics under each type.** (10 Marks)

- c) Performance measurement includes a series of measures within the company designed to ensure that an employee is accountable to management for their performance. **Briefly, explain the FIVE expected benefits from performance measurement.** (5 Marks)
- (Total: 25 Marks)**

### QUESTION THREE

a) You are an audit manager Muhire & Uwera Co. a firm of Certified Public Accountants in Rwanda. You are responsible for the audit of Super Paints Co (SPC), a private limited company engaged in the sale of paint products across Rwanda. The draft financial statements of SPC for the year ended 31 March 2024 show revenue, profit before tax and total assets as follows:

Description	2024 (FRW Billion)	2023 (FRW Billion)
Revenue	47.4	43.9
Profit before tax	2	2.4
Total assets	33.8	25.7

The audit of SPC is at the completion stage and you are currently reviewing the audit working papers where the following issues have been left for your attention:

#### 1. Warehouse building

SPC sold one of its warehouses building on 1 May 2023, and this resulted in a loss on disposal of FRW 0.3 billion. The loss on disposal of the building has been separately disclosed on the face of the statement of profit or loss. SPC had originally purchased the building on 1 April 2014 at a cost FRW 1.2 billion with an estimated useful life of 20 years (a straight-line depreciation method has been applied).

#### 2. Rent-free accommodation benefit to the Finance Director

SPC owns a large residential apartment that occupies the entire top floor of their head office building located in the centre of Kigali. Until 31 March 2023, SPC rented the apartment to tenants paying a monthly rent of FRW 3 million. Since 1 April 2023, the Finance Director of SPC, Jackson Mugisha has been occupying the whole apartment as a rent-free accommodation benefit.

#### Required:

**Comment on the matters that you should consider and explain the audit evidence that you should expect to find in undertaking your review of the audit working papers and financial statements of SPC Co for the year ended 31 March 2024.** (17 Marks)

b) Amahoro Ltd, a listed company in Rwanda is the subsidiary company of the Amahoro Group which is a large group of companies operating in the textiles retail trade. The group has in the past implemented its expansion strategy obtaining a listing on several stock markets globally and by acquiring several foreign-based subsidiaries located in Africa and Europe. While the parent company and some subsidiaries (including foreign subsidiaries) apply the

International Financial Reporting Standards, there are a number of other foreign subsidiaries that apply the local accounting standards to prepare their separate financial statements.

Amahoro Group wishes to have future external audits that take into consideration the requirements of the specific regulators and loan providers in the different countries in which the group holds an investment. Through a resolution made at the last Annual General Meeting, the shareholders of the Amahoro Group approved the decision to put the audit of the group and all its subsidiaries out to tender after the current audit firm did not seek for a re-election. The tender will be for the audit of the financial year ending 30 June 2025.

The Amahoro Group has invited Smith & Co, a global firm of Certified Public Accountants to tender for the audit of Amahoro Group (this will include all the foreign-based subsidiaries in addition to the parent and the Rwanda-based subsidiaries) for the year ending 30 June 2025. Smith & Co has affiliated firms of professional accountants in most of the countries in Africa and Europe.

You are a partner at Smith & Co and you will be the engagement partner on the audit of Amahoro Group if the tender is successful. You are planning to have a meeting with the three (3) other partners of the firm to discuss the most appropriate audit strategy that should be included in the tender document for submission to Amahoro Group. You are of a strong view that applying the “transnational audit” approach will be crucial in conducting the audit of the Amahoro Group efficiently and effectively. However, you are also aware of the challenges of using a transnational audit approach to audit assignments such as the proposed audit assignment for Amahoro Group.

### **Required:**

Using the specific information provided and in regard to the information that will be included in the tender document for submission to Amahoro Group next week:

- i) Explain how a “transnational audit” approach will be relevant to the proposed audit of the foreign subsidiaries of Amahoro Group. (2 Marks)**
  - ii) Discuss THREE features of a transnational audit that may contribute to a high level of audit risk in the audit engagement of the foreign subsidiaries of Amahoro Group. (6 Marks)**
- (Total: 25 Marks)**

### **QUESTION THREE**

Most small and medium size audit firms in Rwanda are busy only during the first quarter of the year. This is due to the fact that most business require audits for tax declarations to which the deadline is 30 March. In order to diversify its earnings and cushion against low season revenue fluctuations, your audit firm Kawase & Associates which is a small and medium size firm, established a training department to cater for coaching of students undertaking accountancy professional programs as well as staff trainings. You are the audit manager at Kawase & Associates and one of your clients Rwambo Limited has presented you with its



financials during this off-peak season. Your audit partner has requested you to conduct the audit of Rwambo Limited simultaneously as you provide a training session for your staff.

Rwambo Limited management presented you the following balances as extracted from their books.

	FRW '000'	FRW '000'
Authorised share capital		50,000
Issued share capital		45,000
Paid up capital (ordinary shares of FRW 20 each)		30,000
Share premium account		2,100
Profit and loss account 1 January 2021		6,430
Revaluation Reserve		4,500
Revenue Reserve		5,000
Motor vehicles (Cost FRW 6,000)	3,600	
Freehold properties at cost	19,000	
Purchases/Sales	80,276	121,492
Equipment (Cost FRW 10,000)	8,000	
Provision for bad debts 1 January 2021		300
Returns	372	236
Carriage inwards	400	
Bad debts	400	
15% Debenture		6,000
Debenture interest accrued January 2021		900
Trade receivables and payables	18,700	7,290
Discounts	650	2,600
Rent receivable		1,000
Audit fees	1,022	
General expenses	5,266	
Bank balances	6,188	
Advertising expenses	3,000	
Directors' remuneration	322	
Salaries and wages	21,872	
Rates and insurance	2,794	
Stock on 1 January 2021	15,986	
	<b><u>187,848</u></b>	<b><u>187,848</u></b>

**Additional Information:**

1. Corporation tax on profit for the year is estimated at FRW 3,575,000
2. A sum of FRW 2,000,000 is to be transferred to Revenue reserve account
3. Ordinary dividend of FRW 200 per share is proposed

**Required:**

- a) **Discuss the audit assertions for an audit of financial statement with reference to the audit of Rwambo Limited.** (10 Marks)
  - b) **Describe the audit procedures for auditing equities, liabilities and expenses, including taxes for Rwambo Limited.** (15 Marks)
- (Total: 25 Marks)**

**End of Question Paper**