
**CERTIFIED PUBLIC ACCOUNTANT
TECHNICAL LEVEL EXAMINATION**

AA1.4 AUDIT AND ASSURANCE

DATE: FRIDAY, 27 FEBRUARY 2026

INSTRUCTIONS:

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

SECTION A

QUESTION 1

An external auditor is engaged to audit a company's financial statements. During the same period, the auditor also provides tax consultancy services to that company. In this situation, **which ethical responsibility is most directly threatened or impaired by the auditor's dual role?**

- A Integrity
- B Professional behaviour
- C Confidentiality
- D Objectivity

(2 Marks)

QUESTION 2

After completing an audit engagement, an auditor is required to issue a formal audit report for users of the financial statements. To ensure transparency and proper understanding of the audit work performed, **which key element must be included in an auditor's report?**

- A The auditor's opinion on the performance of company management
- B List of all transactions reviewed
- C Scope and limitations of the audit
- D Recommendations for control improvements

(2 Marks)

QUESTION 3

A company's audited financial statements are relied upon by various parties, including shareholders and potential investors. After suffering a financial loss, a third party claims that the auditor should be held responsible for negligence. Based on the legal principles established in the *Caparo Industries v. Dickman* case, **what did this case determine regarding an auditor's liability?**

- A Auditors owe a duty of care only to intended users of the financial statements
- B Auditors are liable to all users of financial statements
- C Auditors are exempt from negligence claims if the client has not suffered a loss
- D Auditors must guarantee the accuracy of financial statements

(2 Marks)

QUESTION 4

Which of the following statements in relation to auditor negligence are true?

1. Auditors are required to detect all instances of fraud within the organisation to avoid negligence claims.
2. The tort of negligence applies when the auditor fails to exercise reasonable care and skill, resulting in financial loss to the client.

3. Auditors can be held liable to third parties if the financial statements were relied upon, and the auditor was aware that they would be used for that purpose.
4. If a client withholds key financial documents, the auditor may still be liable for issuing an incorrect opinion.

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

(2 Marks)

QUESTION 5

In Rwanda, if a company wishes to remove its appointed auditor before the end of their term, certain legal procedures must be followed to ensure transparency and fairness. According to the Rwanda Companies Act, **what is required for the lawful removal of an auditor?**

- A Approval from the Board of Directors
- B Ten days' notice and the opportunity to make representations to shareholders
- C Agreement between the auditor and the company's management
- D A private meeting between the auditor and the shareholders

(2 Marks)

QUESTION 6

Under ISA 200, **what does professional scepticism mean?**

- A Maintaining a questioning mind and being alert to potential misstatements
- B Assuming management is hiding information
- C Relying solely on external confirmations
- D Trusting management unless evidence suggests otherwise

(2 Marks)

QUESTION 7

During the audit of a company's financial statements, the auditor is aware that there is always a possibility that errors or misstatements could exist. Even after following all auditing procedures, the auditor must consider the likelihood of providing an incorrect opinion. According to ISA 200, **which of the following best defines audit risk?**

- A The risk that an auditor overcharges a client for services
- B The risk that a company's management fails to maintain internal controls
- C The risk that an auditor expresses an incorrect opinion on financial statements that are materially misstated
- D The risk that stakeholders rely on the audit report

(2 Marks)

QUESTION 8

Which of the following statements regarding the management of audit risk are true?

1. Increasing the amount of audit evidence gathered can help reduce detection risk.
2. If control risk is assessed as high, the auditor can reduce the amount of substantive testing.
3. Auditors use a risk-based audit approach to focus more effort on high-risk areas.
4. Reducing inherent risk is primarily the responsibility of the company's management, not the auditor.

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

(2 Marks)

QUESTION 9

During the audit of XYZ Ltd., the auditor identified a minor error in the company's financial statements. The error involved the incorrect classification of expenses related to executive bonuses. Although the amount was small, this classification allowed the company to report a profit for the year instead of a loss. The financial statements were intended to be used by the company's shareholders and potential investors for future investment decisions.

Based on the scenario, **how should the auditor treat the error in terms of materiality?**

- A The error is qualitatively material because it affects users' perception of the company's financial performance.
B The error is not material since the amount involved is small.
C The error is quantitatively material since all errors must be corrected regardless of size.
D The error is immaterial because the company has other sources of revenue to offset the misclassification.

(2 Marks)

QUESTION 10

Under the Rwanda Companies Act **who is responsible for appointing the auditor?**

- A The company's management
B The shareholders through an ordinary resolution
C The Registrar of Companies
D The audit committee of the company

(2 Marks)

QUESTION 11

ABC Ltd. uses the First-In, First-Out (FIFO) method for inventory valuation. At the start of the year, the company had 500 units of Product X, each costing FRW 50. During the year, the company made the following purchases and sales:

- Purchase 1: 1,000 units at FRW 55

- Purchase 2: 500 units at FRW 60
- Sale 1: 1,200 units sold at FRW 80 per unit
- Sale 2: 500 units sold at FRW 85 per unit

The company needs to calculate the cost of goods sold and the ending inventory using the FIFO method for the financial statements.

Based on the FIFO method, what final value of the inventory would the auditor expect based on the above transactions?

- A FRW 18,000
- B FRW 33,000
- C FRW 47,500
- D FRW 52,000

(2 Marks)

QUESTION 12

A company prepares various financial statements at the end of its accounting period to provide information to stakeholders about its financial performance and position. Among these statements, **which of the following items is typically reported in the statement of profit and loss?**

- A The company's total liabilities at the end of the year
- B Revenue, expenses, and net profit or loss for the period
- C Cash inflows and outflows from operating activities
- D Non-current assets, such as property and equipment

(2 Marks)

QUESTION 13

A company is reviewing its internal control system to strengthen accountability and reduce risks in its operations. Management wants to ensure that no single employee has complete control over all aspects of any critical financial transaction. **What is the main objective of implementing segregation of duties in an internal control system?**

- A To allow employees to perform multiple tasks for efficiency
- B To reduce opportunities for fraud or errors by separating responsibilities
- C To simplify the audit process for external auditors
- D To ensure senior management is responsible for all transactions

(2 Marks)

QUESTION 14

Which of the following statements about the components of the COSO internal control framework are true?

1. The control environment sets the tone at the top and includes management's commitment to ethical behaviour and proper governance.
2. Risk assessment involves ongoing monitoring of transactions to ensure compliance with control policies.

3. Control activities are designed to mitigate identified risks and include procedures like approvals, authorizations, and reconciliations.
4. Information and communication ensure that relevant financial and operational information flows internally and externally to support decision-making.

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

(2 Marks)

QUESTION 15

During an audit engagement, an auditor collects various pieces of evidence to support the audit opinion on a company's financial statements. In evaluating the evidence, the auditor must consider both its quality and quantity. In the context of audit evidence, **what does sufficiency primarily relate to?**

- A The reliability of the evidence
- B The type of evidence required
- C The appropriateness of the evidence
- D The quantity of the evidence

(2 Marks)

QUESTION 16

When an auditor reviews the additions and accuracy of a bank reconciliation, **which technique are they using?**

- A Analytical review
- B Re-performance
- C Recalculation
- D Inspection

(2 Marks)

QUESTION 17

Which of the following sampling techniques is useful for populations with significant variations and requires dividing the population into subgroups?

- A Cluster sampling
- B Systematic sampling
- C Random sampling
- D Stratified sampling

(2 Marks)

QUESTION 18

Which of the following statements about sampling risk is correct?

- A Sampling risk can occur only when statistical sampling methods are used.
- B Sampling risk is unrelated to the size of sample selected for testing.
- C Sampling risk is the possibility that the auditor's conclusion based on a sample differs from the conclusion they would reach if the entire population were tested.
- D Sampling risk is irrelevant to audit conclusions.

(2 Marks)

QUESTION 19

During an audit engagement, the auditor performs detailed testing on account balances and transactions to ensure the financial statements present a true and fair view. **What is the main purpose of performing substantive procedures in an audit?**

- A To verify the entity's internal controls
- B To detect material misstatements in financial statements
- C To confirm the auditor's independence
- D To assess the level of audit risk

(2 Marks)

QUESTION 20

During an audit of XYZ Company, the auditor found that several high-value inventory items listed on the balance sheet were not physically present in the warehouse, and there were discrepancies between recorded inventory values and current market prices.

Which of the following assertions are most relevant to this finding?

- A Existence, Completeness, Accuracy, and Rights and Obligations
- B Existence, Valuation and Allocation, Completeness, and Rights and Obligations
- C Completeness, Cut-off, Classification, and Accuracy
- D Existence, Rights and Obligations and Valuation and Allocation

(2 Marks)

QUESTION 21

During the audit of a company that relies heavily on computerized accounting systems, the auditor examines how information technology affects the company's financial reporting. According to ISA 315, **why must auditors assess risks associated with IT systems?**

- A To evaluate risks related to financial statement preparation and control activities
- B To ensure data security compliance
- C To reduce audit costs
- D To recommend improvements to the IT systems

(2 Marks)

QUESTION 22

Which of the following statements are true?

1. Input controls are designed to ensure that only authorized individuals can access the IT system.
2. Processing controls help ensure that no unauthorised transactions can be processed within the system.
3. Output controls are used to verify the accuracy of processing and restrict access to the output to authorised individuals only.
4. Application controls only focus on preventing unauthorised access to physical IT assets.

- A Statements 1 and 4 are true; Statements 2 and 3 are false
- B Statements 2 and 3 are true; Statements 1 and 4 are false
- C Statements 1 and 3 are true; Statements 2 and 4 are false
- D Statements 2 and 4 are true; Statements 1 and 3 are false

(2 Marks)

QUESTION 23

When management reports frequent clerical errors in accounting, how might auditors adjust their audit procedures?

- A Increase the materiality threshold
- B Limit testing to control procedures only
- C Perform additional testing in areas where errors are likely to occur
- D Rely solely on management's internal reviews of the errors

(2 Marks)

QUESTION 24

Which of the following documentation methods is best suited for providing a quick overview of the formal structure and reporting lines in an organisation?

- A Narrative notes
- B Flowchart
- C Organisation chart
- D Checklist

(2 Marks)

QUESTION 25

A company has an established internal audit department that regularly reviews and tests internal controls, operational processes, and financial reporting. When external auditors come to perform their audit, **how can an effective internal audit function influence their work?**

- A By reducing the need for audit planning
- B By replacing the work of the external audit entirely
- C By improving the quality of the entity's control environment
- D By potentially reducing the extent of external audit procedures

(2 Marks)

QUESTION 26

A company relies on its information systems to process transactions, generate reports, and support management decision-making. Within the internal control framework, **what is the key focus of the information system component?**

- A Determining organisational culture
- B Identifying personnel roles and reporting lines
- C Managing risk of material misstatement
- D Capturing and communicating relevant information for decision-making

(2 Marks)

QUESTION 27

What is the primary purpose of identifying and assessing the risk of material misstatement according to ISA 315?

- A To ensure the accuracy of management's assertions
- B To design and perform further audit procedures
- C To calculate materiality thresholds
- D To prepare the entity's financial statements

(2Marks)

QUESTION 28

What is the relationship between planned reliance on controls and sample size in control testing?

- A Plan to place higher reliance leads to a smaller sample size
- B Plan to place higher reliance leads to a larger sample size
- C Lower reliance allows for no sampling
- D Sample size is not affected by planned level of reliance

(2Marks)

QUESTION 29

During an audit, an auditor examines the company's internal controls, such as authorization procedures, reconciliations, and approval processes, to determine how effectively they prevent or detect errors. **What is the primary purpose of performing tests of controls in an audit?**

- A Identify material misstatements in account balances
- B Assess control design and operating effectiveness
- C Reconcile financial statement amounts
- D Quantify inherent risk

(2Marks)

QUESTION 30

During an audit, the auditor identifies various risks of material misstatement in the financial statements. **Why is it important to link these identified risks to specific financial statement assertions?**

- A To minimise the scope of the audit
- B To determine the audit fee
- C To eliminate sampling risk
- D To design appropriate audit procedures

(2 Marks)

QUESTION 31

Which of these audit procedures are appropriate for confirming that non-current assets recorded in the financial statements are owned by the entity?

1. Trace additions to supporting documentation
2. Perform inquiries with third parties
3. Test the accuracy of depreciation calculations
4. Perform physical verification of non-current assets

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

(2 Marks)

QUESTION 32

During an audit, the auditor is examining a company's inventory to ensure that it is correctly valued in the financial statements. **Which approach would be most appropriate for assessing whether inventory is reported at the correct amount?**

- A Confirming inventory balances with customers
- B Testing write-downs for obsolete or slow-moving inventory
- C Reviewing board minutes
- D Performing a surprise stock count

(2 Marks)

QUESTION 33

During an audit, the auditor wants to ensure that the company's accounts payable include all amounts owed to suppliers at the end of the period. **Which audit procedure would be considered most suitable for testing the completeness of accounts payable?**

- A Confirming accounts payable with suppliers
- B Tracing transactions from the financial statements to source documents
- C Reviewing inventory valuation methods
- D Examining sales orders and invoices

(2 Marks)

QUESTION 34

Which of the following risks related to accruals can be linked to the valuation assertion?

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

(2 Marks)

QUESTION 35

Which of these audit procedures would be appropriate for testing the valuation of accounts receivable?

1. Reviewing the adequacy of the allowance for doubtful accounts
2. Sending confirmation requests to customers to verify outstanding balances
3. Inspecting physical evidence of goods shipped related to sales invoices
4. Analysing aging schedules to assess collectability

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

(2 Marks)

QUESTION 36

Before beginning fieldwork, an audit team develops a structured plan outlining how they will approach the audit of a company's financial statements. **What is the primary purpose of this audit plan?**

- A To ensure the client's management is satisfied with the audit
- B To ensure the audit team completes their work quickly
- C To set the scope, timing, and direction of the audit
- D To eliminate the risk of misstatements in the financial statements

(2 Marks)

QUESTION 37

If new audit evidence suggests a significant risk that was not originally identified in the audit plan, **how should the auditor respond?**

- A Disregard the new evidence if it contradicts management's representations
- B Continue with the original audit procedures and make a note to address the risk in the following year's audit
- C Inform the engagement partner, but avoid changing the plan until all evidence is gathered
- D Update the audit plan to address the newly identified risk and document the rationale for any changes made

(2 Marks)

QUESTION 38

Which of the following is an example of a test of controls?

- A Performing a ratio analysis on inventory turnover
- B Recalculating the depreciation expense for non-current assets
- C Testing a sample of payment invoices to check they have been appropriately authorised
- D Reviewing the valuation of investments at year-end

(2 Marks)

QUESTION 39

You are performing an audit of LMN Corporation, which has multiple bank accounts, some in foreign currencies. As part of the audit, you need to verify the existence and ownership of the reported cash balances in these accounts. The company has provided copies of bank statements and a detailed reconciliation prepared by the finance team.

Which audit procedure would provide the most reliable evidence for testing both the existence and ownership assertions of LMN Corporation's cash balances in this scenario?

- A Reviewing the copies of bank statements provided by the finance team and agreeing them to the cash balance in the financial statements
- B Obtaining direct confirmation from each bank, including those holding foreign currency accounts, and reconciling these to the client's records
- C Inspecting the bank reconciliations for mathematical accuracy and verifying that reconciling items are cleared within a reasonable time after year-end
- D Discussing with the finance team how foreign currency balances are translated into the reporting currency

(2 Marks)

QUESTION 40

Which audit test would help verify the rights and obligations assertion of a building listed as a non-current asset?

- A Examining the building's title deed or conveyancing documentation
- B Reviewing the calculation of the building's depreciation

- C Tracing the building to the non-current asset register
- D Recalculating the net book value of the building

(2 Marks)

QUESTION 41

Which of these statements about testing bank reconciliations are true?

1. The auditor should inspect the bank statements immediately following the year-end to ensure that all reconciling items, such as unpresented cheques and outstanding lodgements, have cleared.
2. It is not necessary for the auditor to verify the accuracy of the mathematical calculations in the bank reconciliation, as this is the client's responsibility.
3. Differences between the bank statement and the cash book should be fully explained and must be cleared in the subsequent period.
4. The auditor should review the bank reconciliation for evidence of review by management, such as signatures or initials, to confirm proper oversight.

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

(2 Marks)

QUESTION 42

What should an auditor do when they identify an unusual item that may have a material impact on the financial statements?

- A Ignore the item if it does not align with prior expectations
- B Discuss the matter with entity management
- C Document it in the working papers for inclusion in the audit report
- D Refer the matter promptly to the engagement partner and consider further investigation

(2 Marks)

QUESTION 43

What should an auditor do if an error appears to have been caused by a control deficiency?

- A Report the deficiency in the management letter and perform additional substantive testing
- B Correct the control deficiency
- C Document the deficiency and perform no further testing
- D Perform additional testing only

(2 Marks)

QUESTION 44

During an audit of a company, the auditor tests a sample of transactions in the accounts payable ledger and finds an error of FRW20,000 out of a sample tested of FRW1 million. The total accounts payable balance in the financial statements is FRW 500 million. The auditor needs to extrapolate the error to estimate the potential misstatement across the entire population.

What is the extrapolated error for the accounts payable balance?

- A FRW 1 million
- B FRW 5 million
- C FRW 10 million
- D FRW 20 million

(2 Marks)

QUESTION 45

What is the primary purpose of the audit opinion issued by the auditor?

- A To communicate whether the financial statements are prepared in accordance with an applicable financial reporting framework
- B To provide the auditee with recommendations for improving internal controls
- C To detail all identified misstatements and deficiencies
- D To summarise audit procedures performed

(2Marks)

QUESTION 46

What is the significance of prioritising findings in the management letter?

- A To increase the length of the management letter
- B To identify the most critical areas to be addressed in the audit opinion
- C To make the report more comprehensive
- D To help management focus on the most critical issues for improvement

(2 Marks)

QUESTION 47

What should the auditor do if the auditee disagrees with a finding in the draft management letter?

- A Ignore the auditee's response and issue the report as initially drafted
- B Document the auditee's disagreement and consider their explanation before finalising the report
- C Immediately remove the finding from the report
- D Issue a modified audit opinion based on the disagreement

(2 Marks)

QUESTION 48

Which of these descriptions of audit opinions are correct?

1. A qualified opinion is issued when the financial statements are free from material misstatements and presented fairly in all respects.
2. An adverse opinion is issued when the financial statements contain material and pervasive misstatements.
3. A disclaimer of opinion is issued when the auditor cannot obtain sufficient appropriate audit evidence to form an opinion, and the effects are material and pervasive.
4. An unmodified opinion indicates that the financial statements are presented fairly in all material respects, in accordance with the applicable financial reporting framework.

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

(2 Marks)

QUESTION 49

During an audit engagement, the audit team carries out various procedures under defined roles and responsibilities. According to ISA 220, **who is responsible for the overall direction, supervision, and performance of the audit engagement?**

- A The Audit Committee
- B The Audit Manager
- C Shareholders
- D The Engagement Partner

(2 Marks)

QUESTION 50

According to ISA 200, **when is an auditor permitted to disclose confidential client information?**

- A Only when there is a legal or professional requirement or right to disclose
- B To any third party that expresses interest in the client's financial performance
- C If the client's competitors request the information
- D Whenever the auditor believes it will benefit the client

(2 Marks)

End of question paper

