CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.2: AUDIT PRACTICE AND ASSURANCE SERVICES

DATE: FEBRUARY 2026

SECTION A

QUESTION ONE: TUYISENGE & ASSOCIATES

	Marks
Q1(a): Practice management and ethical issues regarding assigning audit personnel for three audit clients including:	
(i) Rwanda Motors Co (RMC)	
Award up to 1 mark for every correct / valid point made regarding practice management and ethical issues regarding the assignment of the audit firm personnel -specific to requests from the RMC's Finance Director Award up to 1 mark for a reasoned conclusion	
Total marks for client i	**7**
(ii) Phonex Co	
Award up to 1 mark for every correct / valid point made regarding practice management and ethical issues regarding the revelation of Alexis (as a member of an audit team) not conducting the planned audit work though ticking off the audit schedules as work done Award up to 1 mark for a reasoned conclusion	
Total marks for client (ii)	**7**
(iii) Royce Co	
Marks shall be awarded based on the information provided in the scenario in regard to the following: Ethical issues arising from dealing in Royce's shares: Award 1 mark for each correct / valid explanation made regarding the ethical issues arising from the misuse of information received during the audit of Royce Co for the advantage of a third party (Mutabazi's father). Implications of the ethical issues on assigning firm personnel: Award 1 mark for a reasoned explanation for implication for staff assignments of the audit firm personnel	
Total marks for Q1 client (iii)	6

Do Not Award: Any point indicating that Mutabazi is exposed to a self-interest threat arising from his interest to protect his father's financial interest through the shareholding in Royce Co as it is believed that Mutabazi was never aware that his father held the shares while he was assigned on the audit of Royce Co

Q1(b): Implications of the external reviewer's findings on the firm's System of Quality Management (SoQM) in the audit for RVTC including:

(i) Analytical procedures at the audit planning stage and the audit planning checklist

Award up to 1 mark for every correct / valid point discussing gaps in Jean & Kalisa Partners' SoQMs with specific reference to the non-application of the analytical procedures at the audit planning stage and the non-review of the audit planning checklist. Maximum of 5 marks

Note: Other valid explanations other those in the model answer will earn appropriate marks (including 1 mark for a reasoned conclusion)

Total marks for Q1 (b) finding (i) **5**

(ii) High volume assignments for the audit supervisor

Award up to 1 mark for every correct / valid point discussing gaps in Jean & Kalisa Partners' SoQMs with specific reference to the quality control implications of the limited presence of the audit supervisor in the field work with the audit team at RVTC's head office and the high-volume assignments to the same audit supervisor on their work performance. Maximum of 4 marks

Note: Other valid explanations other those in the model answer will earn appropriate marks (including 1 mark for a reasoned conclusion)

Total marks for Q1 (b) finding (ii) 4

(iii) Incorrect accounting for the prior period errors in RVTC's financial statements

Award up to 1 mark for every correct / valid point discussing gaps in Jean & Kalisa Partners' SoQMs with specific reference to the quality control implications on the auditor's work arising from the Incorrect accounting for the prior period errors in RVTC's financial statements. Maximum of 6 marks

Note: Other valid explanations other those in the model answer will earn appropriate marks (including 1 mark for a reasoned conclusion)

Total marks for Q1 (b) finding (iii)	6

Q1(c)(i): Appropriate suggestions regarding the composition of an audit committee for GIL

Award 1 mark for each point where an assessment of the current gaps in the membership of GIL's Board in relation to best practices for the composition of an audit committee
In addition, award 1 mark for each point explaining the composition of an audit committee relevant for the corporate governance of GIL

Total marks for Q1 (c)(i)	3

(iii) Specific responsibilities of the audit committee with the internal audit and external auditors of GIL
Award 1 mark for each valid well-developed responsibility for an audit committee for GIL - with a specific focus on the audit committee supervision and work relationship with:

- GIL's internal audit

The external auditors for GIL

Total marks for Q1 (c)(ii)	10

Profession marks:

Award 2 professional marks for an adequate "letter format (that includes a mark for a valid/reasonable heading used and 1 mark for a reasonable introduction and/conclusion) (maximum of 2 profession marks)	2
Total marks for Question One	**50**

MODEL ANSWER TO QUESTION ONE: TUYISENGE & ASSOCIATES

Part (a): Practice management and Ethical issues

(i) Audit team assigned to the audit at Rwanda Motors Co (RMC)

There are different factors that are taken into consideration when allocating the firm's personnel to an audit assignment and these include:

- The number of staff and levels of technical expertise required on the assignment;
- Logistical items including the time budgets for the assignment and travels involved;
- The specific needs for the firm personnel (e.g., for study leave); and
- What is in the client's best interest (e.g., completing an audit in an expeditious / timely manner)

As a matter of good practice management for a firm of professional accountants, a client should not dictate which personnel should be included on the assigned audit team.

Therefore, if RMC Finance Director's requests are based solely on grounds that the assigned audit team may disrupt the operations of RMC finance department personnel, then he should be assured that any person assigned to the audit team will be:

- Technically competent to perform the audit tasks delegated to them;
- Adequately briefed (direction) and supervised; and
- Mindful of the need not to cause unnecessary disruption to the RMC's personnel and operations during the audit process

In regard to the specific request for the Finance Director for Kayitesi as the audit supervisor

Tuyisenge & Associates may have other more complex engagements that may require the competence of Kayitesi and any other firm personnel previously assigned on the audit of RMC which may not allow the availability of Kayitesi (and any others) to be assigned to the audit of RMC if these assignments are all running at the same time.

In addition, to re-assign Kayitesi on the engagement to audit RMC's financial statements where he has been the audit supervisor for the past three consecutive audits, may deny him other on-the-job training necessary for his personnel development – for example, he may be ready to assume a more demanding supervisory role with another client or he may wish to expand the client base on his resume in order to obtain (say) a practicing certificate.

To assign Kayitesi to the audit of RMC's financial statements for the fourth consecutive year may also increase the ethical threat of familiarity with RMC's personnel for example if due to the close relationship created between Kayitesi and the client's personnel over the past three audits may impair Kayitesi's professional skepticism approach in the forthcoming audits for RMC. This is a significant threat to the auditor's independence considering the fact that Kayitesi is in a key role as an audit supervisor which also includes reviewing working papers of the audit team under him.

Note: Credit will be given where the student's response raises other valid points related to the RMC Finance Director's specific request for Kayitesi as the audit supervisor for example, a possible management integrity risk if the Finance Director has in the past been able to manipulate Kayitesi with incorrect audit evidence; or Kayitesi may have relaxed audit procedures in the interest of the non-disruption of RMC's finance department personnel creating a need to review working papers for the past audits conducted by Kayitesi etc.

Implication of the Finance Director's request regarding new audit trainees assigned on the audit of RMC

If it is usual to assign new audit trainees to the RMC's audit (like other audit clients of Tuyisenge & Associates), then the Finance Director of RMC should be advised that to assign a higher grade of audit firm personnel to the audit of RMC will likely increase the audit fees as more experienced firm personnel will not necessarily perform the audit work of more junior audit personnel in less time.

Conclusion

The Finance Director's requests to Tuyisenge & Associates can only be granted if they are assessed to be primarily in the interests of RMC's shareholders and they meet the needs of the audit firm's personnel and RMC agrees to the implications of the requests to the increase in the audit fees to be charged.

(ii) Ticking off audit schedules without conducting the audit work– audit of Phonex Co

Our audit firm, Tuyisenge & Associates' quality management procedures should have been adequate to take into consideration that:

- The work delegated to Alexis was within his competence;
- Alexis was adequately supervised during his performance of the audit assignments allocated to him; and
- The work performed by Alexis was reviewed by appropriate personnel especially by someone of at least equal competence as Alexis.

Alexis' working papers for the audit of Phonex Co should be re-reviewed to confirm that there is evidence of his work having been properly directed, supervised and reviewed. If this was not appropriately done, this raises a quality management gap which should be discussed with Alexis' supervisor on the assignment to confirm the validity of Alexis' confession to Fiona.

Since Alexis has already resigned and left the audit firm and also the accountancy profession (as he is now pursuing a new career in civil engineering), it may not seem worth the effort taking any disciplinary action against him since our firm may not have to report the alleged misconduct to ICPAR (i.e., the accountancy body that monitors the professional conduct of professional accountants in Rwanda). However, it may be the case that ICPAR's disciplinary committee may find it important to investigate the matter further and take appropriate action such as communicating their report to the professional body that regulates students pursuing the civil engineering profession course in Rwanda and elsewhere that regulates the new profession that Alexis has joined.

It is likely that our audit firm, Tuyisenge & Associates will have given a recommendation / reference for Alexis to the learning institute / university from which Alexis is pursuing the civil engineering course (as a requirement from the learning institute). This recommendation should be reviewed in light of any evidence which may cast doubt on Alexis' work ethics.

With the emergence of doubts regarding the integrity of Alexis, his work on past assignments that was assigned to him by our firm should be re-reviewed, to determine if there is any risk that the conclusions based on his work may be un-supported by the possibility that he may not have been performing the required audit work. This needs to be reviewed in light of the relevance, reliability and sufficiency of the audit evidence supporting such conclusions.

It should also be considered whether the reviewer(s) of Alexis' work should have identified the gaps during their review work. If the reviewer(s) did not detect any missing evidence in the working papers of Alexis, it becomes clear that the reviewers should be trained on the key requirements for their reviewer roles.

Among the principal code of ethics issued by IESB Code of ethics expected from auditors include integrity, professional competence and due care, and professional behavior. Therefore, Alexis admitted that he ticked-off audit schedules without performing the audit work which constitutes professional misconduct, breach of Integrity, breach of Professional competence and due care. Hence Tuyisenge & associate may have issued an inappropriate audit opinion in the prior year audit as some of the audit work assigned to Alex was not audited. Accordingly, this kind of behavior may have seriously compromised the quality of prior year audit.

Note: Credit will be given where any other valid / supported examples (similar to that used in the model answer on a test for a purchase transaction) is given

The work undertaken by Alexis for other audit clients should also be reviewed for any other potential quality management gaps.

audit.

Conclusion

As Fiona is already aware of the potential problem, it may be appropriate that she is assigned to support the audit supervisor to audits on which Alexis undertook audit work as she will be alert to any results arising from Alexis' conduct during the past audits. It is possible that Tuyisenge & Associates should not want to make the situation known to the entire personnel of the firm.

Note: Credit will be awarded for any sensible conclusion drawn on a reasoned discussion – for example, it may be appropriate to assign a more experienced audit supervisor to Phonex Co to ensure the quality management is adequate across the entire audit team during the field work phase.

(iii) Dealing in Royce's shares

Ethical issues arising from dealing in Royce's shares

A self-interest threat would have arisen only if Mutabazi (a member of the audit team) had known that a close family member (in this case his father) held shares in Royce Co (a listed audit client of Tuyisenge & Associates) which was not the case as it is confirmed that Mutabazi was not aware of his father's shareholdings held in Royce Co.

In addition, a self-interest cannot arise now as Mutabazi's father has further disposed of the shares.

Mutabazi has not committed any criminal act including the act of insider dealing if it is valid that he did not knowingly tip his father to sell the shares held in Royce immediately prior to the publication of the audited financial statements of Royce Co.

However, if it is assessed that Mutabazi in any way communicated (say through a careless remark) something that tipped his father to sell the Royce shares, then he may be in breach of his duty of confidentiality. This should be investigated, and an appropriate disciplinary action taken, for example a caution or a written warning.

If Mutabazi, without knowledge and intention passed sensitive information to his father regarding the potential impact of the reduced profits on the future price of the shares in Royce. Co, then his father may be judged to be guilty of insider dealing for having acted on the information to quickly sell the shares held in Royce Co.

Implication for staff assignments

Mutabazi can continue to act in his position as audit senior on the audit of Royco Co's financial statements in the future on the basis that he was not responsible for insider dealing. This should be the case except if it is assessed that he delayed disclosing the information regarding his knowledge of his father's holding and sale of the shares held in Royce Co which may require to re-evaluate his integrity.

However, if his father was to come under suspicion of insider dealing, then Mutabazi should be withdrawn from the assignment to act in his position as audit senior on the audit of Royco Co's financial statements in the future.

Conclusion

Given the high profile given to Royce Co as a listed client, it would be timely to have all members assigned to the audit team renew their written declarations of independence and confidentiality.

Part (b): Quality management gaps in the audit of Rusizi Vocational & Tertiary College (RVTC)

i) Analytical procedures at the audit planning stage and the audit planning checklist

In accordance with ISA 540 *Analytical Procedures*, applying analytical procedures at the audit planning stage is a mandatory requirement for an auditor as these assist the auditor in understanding the client's business and identifying areas of potential risk. Therefore, in the case of the audit of RVTC, the auditor should have performed analytical procedures at the planning stage of the audit, for example by comparing the account balances and transactions in the draft financial statements of the year ended 31 December 2023 to similar items / balances in the audited financial statements of the prior year ended 31 December 2022.

The non-application of analytical procedures on the basis that RVTC is a new client to our firm is clear evidence that the audit of RVTC has been inadequately planned and conducted as this implies that the audit team approached / conducted procedures without adequate attention to the areas that require the exercise of professional skepticism indicating that the audit firm has not implemented an adequate system of quality management.

In addition, the audit team leadership (i.e., the engagement partner) is required to continuously review the audit plan / checklist to ensure this is adequate to support the team in obtaining sufficient and appropriate audit evidence that will support the auditor's conclusion. In addition, reviewing the audit plan will help the audit team identify areas in the audit plan that require revision based on their audit findings to ensure that ultimately any detection risk is reduced to a manageable level.

Therefore, the fact that the audit planning checklist for the audit of RVTC has not been reviewed by the engagement partner is clear evidence of a poor-quality management system applied by Jean & Kalisa Partners. This is also evidenced by the fact that the final audit work of RVTC's financial statements commenced before the audit plan was reviewed and approved by the engagement partner. This clearly implies that the audit may have been inadequately planned and is not being carried out effectively and efficiently.

Note: Credit will be awarded where an explanation of an "alternative" view is well developed in that it is possible that the audit senior did not perform analytical procedures which in fact had been included in the audit plan and this implies that the audit senior was careless in the conduct of the audit work especially as the senior may have an excuse that the audit planning checklist was not reviewed and approved by the engagement partner. This means that the audit senior was not supervised and engagement partner were negligent by not reviewing the audit plan and the work of the audit senior.

The audit is not being conducted in accordance with the ISAs for example, the audit has not complied to requirements of ISA 520 *Analytical procedures*, ISA 315 *Understanding the entity and its environment and assessing the risks of material misstatements* and ISA 300 *Planning an audit of financial statements* which implies that Jean & Kalisa Partners' system of quality management is not adequately established and/or is not being communicated to the audit firm personnel.

In addition, as it is seen by the audit senior who ignored applying analytical procedures of a new audit client at the planning stage, this is evidence that the audit work is being assigned to audit firm personnel with insufficient technical training and proficiency and this further indicates weaknesses in the audit firm's procedures for hiring and/or training audit personnel.

ii) High volume assignments for the audit supervisor

The audit supervisor as a team leader to the team in the field should spend adequate time with the team in the field in order to ensure adequate supervision and a review of the work done is conducted on a regular basis. The supervisor should be able to identify personnel skills gaps among the audit team and resolve any professional challenges that emerge across the audit team in the field in addition to the routine review of the team's working papers to ensure that the audit documentation is adequate.

The absence of the audit supervisor in the field during the progress of the audit of RVTC's financial statements is a clear indication of a poor-quality management system by Jean & Kalisa Partners as this could be due to the fact that audit firm does not have sufficient audit personnel with relevant competencies to meet the required supervisory duties for different audit engagements taking place at the same time. This is clearly evident in this case as the same audit supervisor is being allocated five (5) other audit assignments at the same time when assigned to the audit of RVTC.

Lack of sufficient time by the audit supervisor on the audit of RVTC's financial statements in the field (in Rusizi) will adversely affect the quality of the audit as the audit team in the field are not adequately supervised and potentially this is the reason why the audit senior may not have performed the required analytical procedures as seen in (i) above.

Note: Credit will be awarded where a valid well-developed explanation is provided to support the possibility that the audit firm has inappropriately delegated tasks among the firm's personnel by delegating a large volume of assignments to the same audit supervisor at the same time which adversely impacts on the quality of the personnel's performance.

iii) Auditor-identified and improper accounting for the prior period errors in RVTC's financial statements

It appears that at the initial stage of the current audit, the review of the subsequent events work from the predecessor auditor of the prior year financial statements was not done or was inadequately done. This is because our audit team at the start of the audit of the current financial statements of RVTC did not take into consideration a review of the required adjusting event relating to the out-of-court settlement when reviewing RVTC’s opening balances brought forward from the prior year ended 31 December 2022.

This is a significant flaw in the quality management processes applied in the audit of RVTC’s financial statements for the year ended 31 December 2023 as the amount of the out of court settlement of FRW 450 million is assessed to have been material to the financial statements for the prior year ended 31 December 2022.

This is evidence that the audit of RVTC has not been performed at the required level of quality since the audit supervisor has not applied the required professional skepticism. In this case the audit supervisor did not take into consideration the implication of the evidence obtained on the material misstatement of RVTC’s opening balances in the conduct of the current year’s audit as the discovery of the material error on the opening balances should have resulted in a revision of the overall audit strategy and audit plan – for example:

- The oversight by RVTC’s management in the subsequent events review may not have been isolated as there could be other errors in the opening balances;
- There may be doubts about the reliability of management’s representations since management of RVTC confirmed to the predecessor auditors during the audit of the prior year’s financial statements that the litigation was pending and/or asserted there was no post-balance sheet adjusting event to recognize in the financial statements for that year ended 31 December 2022.

Further, the identified error has implications on the quality management system of the predecessor auditor, and this may require that our audit firm, Jean & Kalisa Partners may have to conduct additional audit work on RVTC’s opening balances and comparatives.

Since the matter is assessed by the audit supervisor to be material to the financial statements, a prior period adjustment has to be made to RVTC’s financial statements in accordance with IAS 8 *Accounting policies, changes in estimates and errors*. If the accounting adjustment is not made, RVTC’s financial statements for the year ended 31 December 2023 will be materially misstated with respect to the current year and the related comparatives because the out-of-court settlement expense of FRW 450 million which should be attributed to the prior year and not the current year’s net profit or loss which RVTC has incorrectly done.

The need for the additional work by the audit team of Jean & Kalisa Partners will also have a consequential effect on the current year’s audit plan, audit completion timeframe, audit team / staff budgets and the additional cost of the audit linked to the need to increase the audit fees charged to the client.

Failure by the audit supervisor to make immediate communications to the relevant persons regarding the identified error is a clear example that the audit of RVTC’s financial statements for the year ended 31 December 2023 has not been approached with the required quality as the audit supervisor should have immediately communicated the error to the management and those charged with governance (e.g., the audit committee) of RVTC on the discovery of the error and requested the client to make a prior-year adjustment.

If the audit supervisor did not feel competent to raise the matter with the relevant personnel and directors of the client, he should have immediately discussed the matter with the audit manager and not merely leaving it as a mere note in the audit file.

The fact that the audit supervisor ignored applying the appropriate professional skepticism to the opening balances where the prior period adjustment was not made by RVTC, is a clear indication that the audit supervisor lacks the required competence, and the firm needs to conduct appropriate training to the audit supervisor.

Conclusion

There is clearly insufficient direction, supervision and review of the work done by the entire audit team at all levels (including the engagement partner) to provide reasonable assurance that the audit work is of an acceptable standard which implies that the audit firm lacks the necessary resources.

The allocation of the audit personnel to the audit of RVTC's financial statements for the year ended 31 December 2023 should be reviewed and more experienced personnel should be assigned up to the completion and overall review of the working papers by the audit manager and engagement partner.

Part (c): Global Investments Limited (GIL) – Audit Committee

To: Augustin Muhire,

CEO, Global Investments Limited (GIL)

From: Manager - Advisory department

Date: XXX

Dear Mr. Muhire,

Re: Establishment of an Audit Committee for Global Investments Ltd (Gil)

We appreciate your step for seeking our advice for the establishment of an Audit Committee for GIL. We commend the Board of Directors for recognizing the importance of strengthening corporate governance within the Group.

The details below are based on the request to our firm to provide guidance and recommendations on the specific composition of the proposed audit committee for Global Investments Limited (GIL). The guidance focused on the composition and responsibilities of the audit committee in relation to the supervision of the internal and external auditor of GIL.

(i) Composition of the audit committee

The basis for establishing an audit committee primarily concerns corporate governance of a company. An audit committee is a sub-committee of the Board, established by the Board to provide an independent oversight of the organization's systems of internal control and financial reporting process.

On the basis that the primary purpose of an audit committee is to carry out an independent review, members of the audit committee should be independent of the company's main executives.

For a large company, such as Global Investments Limited (GIL), the audit committee should have a minimum of three members who should all be independent non-executive directors.

At the present time, GIL has only one non-executive director on the Board, Daniel Mugabe. His relationship as a brother-in-law to Augustin who is a member of GIL's executive will mean that Daniel will not be perceived to be independent. In addition, Augustin as a member of GIL's executive cannot be a chairperson or a member of the audit committee on the basis that he is a chief executive officer and is the driving force behind the business operations and decision making at GIL. Therefore, Augustin cannot be perceived to be independent of the decision-making process at GIL.

Based on the above discussion, Daniel and Augustin cannot be members of the audit committee. It is important that GIL appoints three non-executive directors on the audit committee.

At least one of the three non-executive directors must be experienced in audit and financial reporting, for example knowledge in the international financial reporting standards (IFRS standards) while the other audit committee members should have sufficient business experience relating to the industry in which GIL is operating in order to be of appropriate assistance to GIL.

(ii) Specific responsibilities of the audit committee with the internal audit and external auditors of GIL

Internal audit

The audit committee will be required to:

- Approve the appointment or termination of the head of the internal audit department
- Ensure that the internal auditors have the direct access to the Board chairman and to the audit committee and the internal audit is accountable to the audit committee
- Review and assess the annual internal audit work plan, ensuring that the internal audit plan covers all the subsidiaries of GIL including coverage of GIL's interests overseas
- Receive a report on the results / findings of the internal auditors' work on a periodic basis including reports on all group companies and locations visited.
- Review and monitor the group and local management's responsiveness to the internal auditor's findings and recommendations
- Conduct meetings with the head of internal audit at least once a year without the presence of management.
- Monitor and assess the role and effectiveness of the internal audit function in the overall context of the groups and individual companies risk management systems.

External audit

The audit committee will be required to:

- Approve the terms of engagement and remuneration to be paid in respect of audit services provided for all of the auditors of companies in the group and the group auditor.
- Ensure that all external auditors (for the group and other auditors) are independent of the group and each of the subsidiary companies and this will be done through:
  - discussion with the auditors;
  - review of policies and procedures of the audit firms aimed at maintaining independence; and
  - compliance with appropriate ethical guidelines.
- To ensure that at the start of each annual audit cycle, appropriate audit plans are in place for the group audit, e.g., the overall strategy, risk assessment, materiality, resources, work plans and group accounting instructions etc.
- Review alongside with the group auditors, the findings of the group auditor's work through (say):
  - discussing the outcome of the audit of each subsidiary;
  - discussing major issues arising during the audit (whether these are resolved or unresolved);
  - key accounting and auditing judgments;
  - levels of error identified during the audit; and
  - discussing with management and auditors why certain errors remain uncorrected
- Review with the group auditor, the draft financial statements of each subsidiary company with particular attention to significant elements such as:
  - compliance with laws and regulations
  - compliance with the requirements of the IFRS standards in the preparation of their financial statements as a group accounting framework applied by all the group companies
  - adequate disclosures of all items and specific accounting policies
  - large or unusual transactions and account balances
  - foreign currency transactions for example transactions between GIL's and its interests overseas
  - valuations of properties and investments
  - consistency of the accounting treatment for similar transaction items within the group; and
  - all other financial information that is included in the group annual report.
- Review the audit representation letters before these are signed by management of GIL
- Review the management letters and monitor management's actions taken in line with the management letter recommendations.
- Consider any modifications made by the group and subsidiary auditors in their reports and in particular the impact of any subsidiary qualification on the GIL group auditor's report.
- Consider the planning of subsequent audits, with specific reference to the:
  - timing of the audit;

  - use of GIL's internal audit team;
  - use of computer-assisted auditing techniques; and
  - location visits by rotation
- Make recommendations to the main board on the appointment and remuneration of all external auditors and regularly taking into consideration the assessment the need to continue using several different audit firms.
- Assess the effectiveness of the audit process for the group and for each subsidiary e.g.,
  - checking whether the agreed audit plan was met and where changes in the audit plan were made, the audit committee needs to understand the reasons for the changes including changes in the perceived audit risks and the work undertaken to address those risks;
  - consider how robust the group auditors are in handling key accounting and audit judgments identified and in responding to questions from the audit committee.
  - Consider the quality of the group auditor's report on findings / weaknesses of the internal control systems of GIL
  - Obtain feedback about the conduct of the audit from key people involved e.g., the GIL Finance Director and the head of internal audit.
- The audit committee should develop and recommend to the Board, the company's policy in relation to the provision of non-audit services by an auditor. The audit committee's objective should be to ensure that provision of such services should not impair the independence or objectivity of the auditor. In this case, the audit committee should consider:
  - Whether the skills and experience of the audit firm enables the firm to suitably provide such services to GIL;
  - Whether the audit firm has in place suitable safeguards to address any threats of independence or objectivity in an audit engagement arising from the provision of non-audit services to GIL
  - The nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit fee.

Note: Credit shall be given for any other reasonable point given as a valid responsibility of the audit committee with the internal audit and/or external audit

We strongly recommend that the Board of Directors proceeds with the establishment of the audit committee in line with best governance practices as advised and remain available to assist with its implementation.
We remain available to assist further with drafting a formal Audit Committee Charter should you require.

Yours faithfully

Manager - Advisory Services

Hakizimana and Associates

MARKING GUIDE AND MODEL ANSWER TO QUESTION TWO: MERANEZA SERVICES LTD

MARKING GUIDE	**Marks**
Q2(a): Possible fraud & error depending on the outcome from analytical review	
Award as below: - 1 mark for each identified possible error/fraud that may result increase in current ratio. (maximum of 3 marks) - 1 mark for any correct audit response to the identified risk. (maximum of 3 marks) - 1 mark for each identified possible error/fraud that may result Increase in inventory turnover. (maximum of 1 mark) - 1 mark for each identified possible error/fraud that may result Decrease in inventory turnover. (maximum of 1 mark) - 1 mark for each identified possible error/fraud that may result Increase in gross marging. (maximum of 2 marks)	
Maximum marks for Q4(a)	10
Q4(b): Main types of performance measurements (KPIs) and provided at least three metrics under each type	
Award 0.5. marks for correctly identifying type of performance measurement (KPIs) and 0.5 marks for a valid explanation. (maximum of 5 marks)	
Award up to 1 mark for two (2) valid metrics given or 0.5 marks for one (1) metric given. (maximum of 5 marks)	
Maximum marks for Q4(b)	10
Q4(c): Expected benefits from performance measurement Award 1 mark for correctly benefit of performance measurement identified by the candidate. (maximum of 5 marks).	
Note: a valid benefit not provided under model answers will be considered up to 1 mark.	
Maximum marks for Q2(c)	**5**
Total marks for Question Two	**25**

MODEL ANSWER FOR QUESTION TWO

(a) Part (a): To describe the possible fraud & error conditions and responses to risk depending on outcome from analytical procedures:

(i) Possible error / fraud conditions that may cause Increase in current ratio:

(a) Overstatement of receivable

(i) Fictitious receivable:

–Verify customer purchase order

– Match sales invoices with dispatch notes

– Verify subsequent collections.

(ii) Inadequate allowance for doubtful debts:
– Review age analysis
– Check subsequent collections
– Inspect correspondence with customers that are considered doubtful
– Consider legal proceedings against customers.

(b) Overstatement of inventories
(i) Erroneous valuation:
– Verify reliability of cost of inventories
– Review GRNs issued during first week of next accounting period to see that none have been included in inventories.
– Recount major inventory items and work back to year end count.
ii) Inadequate allowance for obsolete inventories:
– Check subsequent selling prices
– Review age analysis of inventories
– At the time of physical observation note rusty, dusty, damaged and broken goods.

(c) Understatement of accounts payable and accruals
– Check subsequent payments
– Match GRNs issued near year end with suppliers' invoices to ensure that goods received before year end have also been entered in purchases day book.
– Verify computations for tax provision
– Evaluate reasonableness of estimated provision for warrantees.

2. Increase in inventory turnover
– Increase in inventory turnover may be due to understatement of closing inventory.

3. Decrease in inventory turnover
– Decrease in inventory turnover may be due to overstatement of closing inventory.
4. Increase in gross margin
– Overstatement of closing inventory;
– Understatement of cost of sales.
– Increase in gross margin but decrease in operating margin may be due to costs mitted or erroneously classified as operating expenses.

Part (b): To discuss the main types of performance measurements (KPIs) and provided at least three metrics under each type.

Types of performance measurement (KPIs)

1. Financial Metrics and KPIs

Key performance indicators tied to the financials typically focus on revenue and profit margins. Net profit, the most tried and true of profit-based measurements, represents the amount of revenue that remains, as profit for a given period, after accounting for all of the company's expenses, taxes, and interest payments for the same period.

Financial metrics may be drawn from a company's financial statements. However, internal management may find it more useful to analyze different numbers that are more specific to analyzing the problems or aspects of the company that management wants to analyze. For example, a company may leverage variable costing to recalculate certain account balances for internal analysis only.

Examples of financial KPIs include:

- **Liquidity ratios** (i.e., current ratios, which divide current assets by current liabilities): These types of KPIs measure how well a company will manage short-term debt obligations based on the short-term assets it has on hand.
- **Profitability ratios** (i.e., net profit margin): These types of KPIs measure how well a company is performing in generating sales while keeping expenses low.
- **Solvency ratios** (i.e., total debt to total assets ratio): These types of KPIs measure the long-term financial health of a company by evaluating how well a company will be able to pay long-term debt.
- **Turnover ratios** (i.e., inventory turnover): These types of KPIs measure how quickly a company can perform a certain task. For example, inventory turnover measures how quickly a company can convert an item from inventory to a sale. Companies strive to increase turnover to generate faster churn of spending cash to later recover that cash through revenue.

2. Customer Experience Metrics and KPI

Customer focused KPIs generally center on per-customer efficiency, customer satisfaction, and customer retention. These metrics are used by customer service teams to better understand the service that customers have been receiving.

Examples of customer-centric metrics include:

- **Number of new ticket requests**: This KPI counts customer service requests and measures how many new and open issues customers are having.
- **Number of resolved tickets**: This KPI counts the number of requests that have been successfully taken care of. By comparing the number of requests to the number of resolutions, a company can assess its success rate in getting through customer requests.
- **Average resolution time**: This KPI is the average amount of time needed to help a customer with an issue. Companies may choose to segment average resolution time across different requests (i.e., technical issue requests vs. new account requests).
- **Average response time**: This KPI is the average amount of time needed for a customer service agent to first connect with a customer after the customer has submitted a request.

Though the initial agent may not have the knowledge or expertise to provide a solution, a company may value decreasing the time that a customer is waiting for any help.

- **Top customer service agent**: This KPI is a combination of any metric above cross-referenced by customer service representatives. For example, in addition to analyzing company-wide average response time, a company can determine the three fastest and slowest responders.
- **Type of request**: This KPI is a count of the different types of requests. This KPI can help a company better understand the problems a customer may have (i.e., the company's website gave incorrect or inaccurate directions) that need to be resolved by the company.
- **Customer satisfaction rating**: This KPI is a vague measurement, though companies may perform surveys or post-interaction questionnaires to gather additional information on the customer's experience.

3. Process Performance Metrics and KPI

Process metrics aim to measure and monitor operational performance across the organization. These KPIs analyze how tasks are performed and whether there are process, quality, or performance issues. These types of metrics are most useful for companies with repetitive processes, such as manufacturing firms or companies in cyclical industries.

Examples of process performance metrics include:

- **Production efficiency**: This KPI is often measured as the production time for each stage divided by the total processing time. A company may strive to spend only 2% of its time soliciting raw materials; if it discovers it takes 5% of the total process, then the company may strive for solicitation improvements.
- **Total cycle time**: This KPI is the total amount of time needed to complete a process from start to finish. This may be converted to average cycle time if management wishes to analyze a process over a period of time.
- **Throughput**: This KPI is the number of units produced divided by the production time per unit, measuring how fast the manufacturing process is.
- **Error rate**: This KPI is the total number of errors divided by the total number of units produced. A company striving to reduce waste can better understand the number of items that are failing quality control testing.
- **Quality rate**: This KPI focuses on the positive items produced instead of the negative. By dividing the successful units completed by the total number of units produced, this percentage informs management of its success rate in meeting quality standards.

4. Marketing KPIs

Marketing KPIs attempt to gain a better understanding of how effective marketing and promotional campaigns have been. These metrics often measure conversation rates on how often prospective customers perform certain actions in response to a given marketing medium.

Examples of marketing KPIs include:

- **Website traffic**: This KPI tracks the number of people who visit certain pages of a company's website. Management can use this KPI to better understand whether online traffic is being pushed down potential sales channels and if customers are not being funneled appropriately.

- **Social media traffic**: This KPI tracks the views, follows, likes, retweets, shares, engagement, and other measurable interactions between customers and the company's social media profiles.
- **Conversion rate on call-to-action content**: This KPI centers around focused promotional programs that ask customers to perform certain actions. For example, a specific campaign may encourage customers to act before a certain sale date ends. A company can divide the number of successful engagements by the total number of content distributions to understand what percent of customers answered the call to action.
- **Blog articles published per month**: This KPI simply counts the number of blogs posts a company publishes in a given month.
- **Click-through rates**: This KPI measures the number of specific clicks that are performed on email distributions. For example, certain programs may track how many customers opened an email distribution, clicked on a link, and followed through with a sale.

5. Information Technology KPIs

A company may desire operational excellence; in this case, it may want to track how its internal technology (IT) department is operating. These KPIs may encourage a better understanding of employee satisfaction or whether the IT department is being adequately staffed. Examples of IT KPIs include:

- **Total system downtime**: This KPI measures the amount of time that various systems must be taken offline for system updates or repairs. While systems are down, customers may be unable to place orders or employees may be unable to perform certain duties (i.e., when the accounting information system is down).
- **Number of tickets/resolutions**: This KPI is similar to customer service KPIs. However, these tickets and resolutions relate to internal staff requests such as hardware or software needs, network problems, or other internal technology problems.
- **Number of developed features**: This KPI measures internal product development by quantifying the number of product changes.
- **Count of critical bugs**: This KPI counts the number of critical problems within systems or programs. A company will need to have its own internal standards for what constitutes a minor vs. major bug.
- **Back-up frequency**: This KPI counts how often critical data is duplicated and stored in a safe location. In accordance with record retention requirements, management may set different targets for different bits of information.

6. Sales KPIs

The ultimate goal of a company is to generate revenue through sales. Though revenue is often measured through financial KPIs, sales KPIs take a more granular approach by leveraging nonfinancial data to better understand the sales process. Examples of sales KPIs include:

- **Customer lifetime value (CLV)**: This KPI represents the total amount of money that a customer is expected to spend on your products over the entire business relationship.

- **Customer acquisition cost (CAC)**: This KPI represents the total sales and marketing cost required to land a new customer. By comparing CAC to CLV, businesses can measure the effectiveness of their customer acquisition efforts.
- **Average dollar value for new contracts**: This KPI measures the average size of new agreements. A company may have a desired threshold for landing larger or smaller customers.
- **Average conversion time**: This KPI measures the amount of time from first contacting a prospective client to securing a signed contract to perform business.
- **Number of engaged leads**: This KPI counts how many potential leads have been contacted or met with. This metric can be further divided into mediums such as visits, emails, phone calls, or other contacts with customers.

Management may tie bonuses to KPIs. For salespeople, their commission rate may depend on whether they meet expected conversion rates or engage in an appropriate number of leads.

7. Human Resource and Staffing KPIs

Companies may also find it beneficial to analyze KPIs specific to their employees. Ranging from turnover to retention to satisfaction, a company may have a wealth of information already available about its staff. Examples of human resource or staffing KPIs include:

- **Absenteeism rate**: This KPI is a count of how many dates per year or specific period employees are calling in sick or missing shifts. This KPI may be a leading indicator for disengaged or unhappy employees.
- **Number of overtime hours worked**: This KPI tracks the number of overtime hours worked to gauge whether employees are potentially facing burnout or if staffing levels are appropriate.
- **Employee satisfaction**: This KPI often requires a company-wide survey to gauge how employees are feeling about various aspects of the company. To get the best value from this KPI, companies should consider hosting the same survey every year to track changes from one year to the next regarding the exact same questions.
- **Employee turnover rate**: This KPI measures how often and quickly employees are leaving their positions. Companies can further break down this KPI across departments or teams to determine why some positions may be leaving faster than others.
- **Number of applicants**: This KPI keeps count of how many applications are submitted to open job positions. This KPI helps assess whether job listings are adequately reaching a wide enough audience to capture interest and lure strong candidates.

KPIs are usually not externally required; they are simply internal measurements used by management to evaluate a company’s performance.

Part (c): Expected benefits from performance measurement

Companies can gain assurance from performance measurement. It includes a series of measures within the company designed to ensure that employees are accountable to management for their performance. **The following are benefits to performance measurement:**

- It clarifies the objectives of the entity;
- It develops agreed measures of activity;
- It gives greater understanding of processes;
- It facilitates the comparison of performances in different organizations;
- It facilitates the setting of targets for the organization and its managers;
- It promotes the accountability of the organization to its shareholders;
- It provides an excellent chance to adjust team duties. If a team member excels at a specific skill or job, you might align your assignments to concentrate on that specialization;
- It aids in staff motivation where employees may have a greater incentive to work harder if they know their supervisors are watching them and measuring their performance.

Conclusion: Performance measurement is an essential tool in the workplace that allows supervisors and managers to assess employee performance to decide whether they are reaching the company's expectations. The measurement technique differs depending on the work environment, the type of company, the employee's occupation and industry in general.

QUESTION THREE

Marking Guide

Part (a): Super Paints Co	
Matters to consider and audit evidence expected to be available	
(i) Warehouse building	
Award 1 mark for each valid matter raised including (where applicable and based on the information in the scenario given):	
- Materiality (must have both a reasonable calculation and a correct conclusion). Note: Do Not Award if either the calculation or the conclusion is not given	
- A reasonable reference to a relevant accounting treatment - 1 mark for each correct reference to an accounting treatment. Note: It is NOT a requirement for the student's answer to quote the correct IAS/IFRS number or title of the accounting standard	
- Application of the standard to the accounting treatment issues regarding the warehouse building (raising potential risks to misstatements of the financial statement assertions)	
- The impact on the auditor's opinion (where applicable) if any potential misstatement is not corrected	
Award up to 1 mark for each valid audit evidence given based on the model answer and/or any other valid points of audit evidence provided by the student answers (where the 1 mark includes 0.5 marks for a correct "what - supported by a valid source where applicable" and the other 0.5 marks for a valid "why or reason" relating to the financial statement assertion being tested ***Note:*** *Marks will be awarded for other correct items of evidence (in addition to those provided in the model answer) as provided in the student's answer*	

Maximum marks for Q3(a)(i) - 10 marks	10
(ii) Accommodation benefit to the Finance Director	
Award 1 mark for each valid matter raised including (where applicable and based on the information in the scenario given):	
- Materiality (this may refer to a qualitative "material by nature" as a "related party transaction). Note: Quantitative materiality can also be granted where the equivalent imputed rental amount (e.g., using an annual rental amount) is used to compute and conclude of the materiality	
- A reasonable reference to a relevant accounting treatment - 1 mark for each correct reference to an accounting treatment. Note: It is NOT a requirement for the student's answer to quote the correct IAS/IFRS number or title of the accounting standard	
- Application of the standard to the accounting treatment issues regarding the related party transaction and related disclosures in the scenario (raising potential risks to misstatements of the financial statement assertions)	
- The impact on the auditor's opinion (where applicable) if any potential misstatement is not corrected	
Award up to 1 mark for each valid audit evidence given based on the model answer and/or any other valid points of audit evidence provided by the student answers (where the 1 mark includes 0.5 marks for a correct "what - supported by a valid source where applicable" and the other 0.5 marks for a valid "why or reason" relating to the financial statement assertion being tested. ***Note:*** *Marks will be awarded for other correct items of evidence (in addition to those provided in the model answer) as provided in the student's answer – for example, where an evaluation into the Finance Director's integrity is assessed as a matter to consider especially if he used his position (as a key management personnel) to access the use of the apartment without paying rent.*	
Maximum marks for Q3(a)(ii) - 7 marks	7
Part (b): Amahoro Group	
Part (b)(i): Relevance of using a "transnational audit" to the proposed audit engagement of the Amahoro Group	
Award 1 mark for each valid point given as the relevance of applying trans-national audit to the audit of the foreign subsidiaries of Amahoro Group - these must be related to the information in the scenario.	
Maximum marks for Q3(b)(i) - 2 marks	2
Part (b)(ii): Features of a transnational audit that may contribute to a high level of audit risk when auditing foreign subsidiaries	
Award up to 2 marks (using the model answer as a guide) for each point split as below:	
- 1 mark for a correct (generic) feature of a transnational audit; and	

- 1 mark for a correct application / reference of the "feature" to a relevant audit risk related to audit risk arising from the nature of audit work for the foreign subsidiaries of Amahoro Group	
Maximum marks for Q3(b)(ii) - 6 marks	6
Total marks for Question Four	**25**

MODEL ANSWER FOR QUESTION THREE

Part (a)(i): Sale of a Warehouse building

The following matters will need to be considered during the review of the working papers:

- The net carrying amount and disposal proceeds for the warehouse building on the date of disposal. In this case, the warehouse building was in use for nine (9) out of its originally estimate useful life of twenty (20) years (from April 2014 to 31 May 2023). This implies that an accumulated depreciation of FRW 0.54 billion (FRW 1.2 billion / 20 years' x 9 years – assuming nil residual value and a full year's depreciation charge in the year of acquisition and none in the year of disposal) had been recognized leaving a net carrying value on the date of disposal of FRW 0.66 billion at 31 May 2024. Considering that the loss on disposal was FRW 0.3 billion, then the disposal proceeds were therefore only FRW 0.36 billion (0.66bn – 0.3bn).
- Materiality of the disposal transaction: In this case, the loss on disposal of FRW 0.3 billion represents 15% of PBT (FRW 0.3 billion /FRW 2 billion × 100 for the year to 31 March 2024) and is therefore material. In addition, the net carrying value of the building on the date of disposal is material to the statement of financial position as this constitutes 2.6% of total assets (FRW 0.66 billion /FRW 25.7 billion× 100).
- The accounting treatment requirements: IAS 16 *Property, Plant and Equipment* and IAS 1 *Presentation of financial statements*, permit a separate disclosure, of a material loss on disposal of an asset (such as the building) on the face of the profit or loss is permitted.
- SPC's reason for the sale of the warehouse building: In this case, it is important to consider the potential reasons for SPC's sale of the building, for example, whether the building was surplus to operating requirements of the company; or there was a need to replace the building with a new and larger warehouse building partly explaining the reason for the increase in the total assets of FRW 8.1 billion (33.8 – 25.7) billion.
- The reason for the sale being made at a "loss". In this case, it is important to consider whether for example:

– The sale was at an under-value (e.g. to a related party);
– The building had not been well maintained during the 9 years of its use by SPC or was otherwise impaired by the date of the sale;
– The useful life of the building should have been less than 20 years;
– There is any deferred consideration within the sales contract which has not yet been recognised;
– Any non-cash disposal proceeds have been ignored in the computation of the loss on disposal e.g. if a barter exchange of another asset was acquired as a part-exchange.

- Financial statement impact: In this case, if the estimated useful life of the building was supposed to be less than 20 years, then tangible non-current assets may be materially overstated in respect of other warehouse buildings that are still in use and being depreciated on the same basis / rate as the disposed building.
- Whether the sale was made to a related party to SPC: On the basis of the fact that the sale was made at a loss may indicate that the sale was made to a related party who could have influenced the amount of the selling price charged. If the sale was made to a related party, then additional disclosure should be required in a note to the financial statements for the year to 31 March 2024 (IAS 24 *Related Party Disclosures*).
- Disclosure of the asset sale transaction in prior year financial statements: Since the asset was sold after only one-month (in May 2023) following the end of the prior year, it is important to consider whether the sale was identified in the prior year audit's as a material event after the end of the reporting date and therefore, whether:
  - an adequate disclosure in accordance with IAS 10 Events after the end of the reporting period was made; and
  - whether an impairment loss on the warehouse building was correctly computed and recognised at 31 March 2023. If not, and the building was impaired at 31 March 2024, a prior period error should be accounted for (IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'). An impairment loss of FRW 0·3 billion was material in the prior year's financial statements at 12.5% of the prior year profit (FRW 0.3 billion / FRW 2.4 billion × 100 for the year to 31 March 2023).
- Impact of the misstatement for a non-recognition of a prior year adjustment due to a prior-period error on the auditor opinion: This is important as SPC's failure to account for a prior period error (if any) would result in modification of the audit opinion leading to an 'except for' non-compliance with IAS 8 (in the current year ended 31 March 2024) and IAS 36 (in the prior period).

Audit evidence expected on the working file

- The net carrying amount (FRW 0.66 billion as calculated above) of the building agreed to the non-current asset register balances on 31 March 2023
- A recalculation of the loss on disposal on the building to confirm accuracy of the amount recognised in the financial statements
- A confirmation that the cost and accumulated depreciation of the building has been de-recognised / removed from the asset register in the year to 31 March 2024.
- The amount of the disposal proceeds agreed to the cash book agreed and the bank statement.
- An inspection of the sales contract to confirm SPC's transfer of the legal ownership of the building to the buyer.
- A copy of the minutes of a Board meeting confirming the Board's approval for the sale of the warehouse building.
- A review of schedule for the maintenance expenses and other related records to confirm the reason for loss on sale.

- A review of the prior year audit working papers to confirm whether the effects after the end of the reporting date related to the impairment loss and the sale of the building were included in the disclosure notes of the prior year financial statements.
- A copy of the written management representation confirming that buyer of the building is not a related party.

Part (a)(ii): Rent-free accommodation benefit to the Finance Director
Matters

- The Finance Director (Jackson) is a member of SPC's key management personnel and is therefore a related party.
- The occupation of SPC's residential apartment by the Finance Director (Jackson) is therefore a related party transaction, even though no price is charged (IAS 24 *Related Party Disclosures*).
- Related party transactions are material by nature and information about them should be disclosed so that users of financial statements understand the potential effect of related party relationships on the financial statements.

- Understatement of both rental income and salary expenses: The audit manager will review the books of account to confirm whether both the rental income and payroll expense were recognized in the accounts.
- Fair rental valuation: The audit manager will need to consider the assumptions considered to determine the value of rent to confirm reasonableness.
- The provision of 'accommodation' is a non-monetary benefit that should be included in the disclosure of key management personnel compensation (within the category of short-term employee benefits).
- The financial statements for the year ended 31 March 2024 should disclose the arrangement for providing the Finance Director (Jackson) with rent-free accommodation and its fair value (i.e. FRW 3 million per month).

Note: *Since no price is charged for the transaction, rote-learned disclosures such as 'the amount of outstanding balances' and 'expense recognized in respect of bad debts' are irrelevant.*

Audit evidence expected in the audit working papers

- A copy of a written representation from the management board confirming that there are no related party transactions requiring disclosure other than those that have been disclosed.
- A review of the minutes of the Board confirming the Board's approval for the accommodation to be made available to the Finance Director including a confirmation of the terms such as a rent-free facility to the Finance Director.
- An inspection of the lease agreement with (or payments received from) the previous tenant to confirm the FRW 3 million monthly rental value.
- A review of the human resource records and/or payroll records confirming the monetarization of the rent-free accommodation as a taxable benefit to the Finance director

- An inquiry of management for the rationale of turning SPC's use of the apartment as a rented property to becoming available as a rent-free accommodation to the Finance Director

Part (b): Amahoro Group

Part (b) (i): The relevance of a transnational audit to the proposed audit of Amahoro Group

A transnational audit means an audit of financial statements which are or may be relied on outside the audited entity's home jurisdiction for the purpose of significant lending, investment or regulatory decisions.

Relevance:

- The Amahoro Group is listed on the stock exchange of several countries, (and through its expansion plan, the group may be planning to raise more finance by a further listing). This means that the group is subject to the regulations of all stock exchanges on which it is listed, and so is bound by listing rules outside of its home jurisdiction. A transnational audit will ensure the audit takes into consideration a detailed review of the Amahoro Group's compliance to the different stock market regulatory requirements and separate reports on compliance will be submitted for those stock market regulators that require a report on compliance separated from (or combined with) the audit report.

- The group also contains many foreign subsidiaries, meaning that it operates in a global business and financial environment. In a transnational audit, Smith & Co will work with its affiliated firm of Certified Public Accountants based in the African and European countries where Amahoro Group has foreign subsidiaries to smoothly conduct the audit of the financial statements of the foreign subsidiaries to ensure a quality audit completed within the agreed timelines with the client

(ii) Features of a transnational audit that may contribute to a high level of audit risk

Application of auditing standards: Although many countries have adopted International Standards on Auditing (ISAs), some countries not all have done so, choosing instead to use locally developed auditing regulations. In addition, some countries including some in Africa and Europe use modified versions of ISAs. This means that in a transnational audit, some components of the Amahoro Group financial statements will have been audited using a different auditing framework if these relate to the foreign subsidiaries in countries where the audit framework does not apply ISAs while in another country the audit has been conducted using ISAs. This will result in inconsistent audit processes within the group of the separate financial statements of Amahoro Ltd and its subsidiaries (especially the foreign subsidiaries) potentially reducing the quality of the audit as a whole and increasing the detection (audit) risk in the group audit.

Regulation and oversight of auditors: Similar to the previous comments on the use of ISAs, across the world there are many different ways in which the activities of auditors are regulated and monitored. In some countries the audit profession is self-regulatory, whereas in other countries a more legislative approach is used. If the foreign subsidiaries of Amahoro Group are spread to different countries with a mixture of self-regulated audit firms and others located in countries where the audit practice is highly regulated, it will therefore be foreign subsidiaries will be audited under strictly regulated audit practices which may not the case for the foreign subsidies where the audit firms are self-regulated. This also can affect the quality of audit work in a transnational situation increasing the detection (audit) risk in the group audit.

Financial reporting framework: Some countries use International Financial Reporting Standards, whereas some use locally developed accounting standards. For a transnational group application in the audit of Amahoro Group, it is likely that adjustments, reconciliations or restatements will be required in order to comply with the requirements of the jurisdictions relevant to the group financial statements (i.e. the IFRSs as these are the accounting framework applied by the parent and these are accepted in Rwanda where the parent company is based). Such reconciliations can be complex and require a high level of technical expertise of the preparer and the auditor in the absence of which a high level / volume of material misstatements may not be detected in Amahoro Group financial statements by the group auditor.

Corporate governance requirements and consequent control risk: In some countries there are very prescriptive / strict rule-driven corporate governance requirements, which the auditor must consider as part of the audit process. In this case the auditor may need to carry out extra work over and above local requirements in Rwanda (where the parent company is based) in order to ensure group wide compliance with the requirements of the jurisdictions relevant to the financial statements. However, in some countries there is very little corporate governance regulation at all and controls are likely to be weaker than in other components of the group. Control risk is therefore likely to differ between the various subsidiaries making up the Amahoro Group which increases the audit risk at the audit of the Amahoro Group financial statements.

QUESTION FOUR

(Part A) Marking Guide

Assertions for audit of financial statements Rwambo Limited

- ✓ Identify the assertion tested
- ✓ Identify the audit procedure
- ✓ Note the following while writing down the audit procedure
- ✓ Choose audit procedures from AEIOU
- ✓ A: **A**nalytical procedures
  E: **E**nquiry and confirmation directly from a third party – ie inquiry
  I: **I**nspection of records and assets
  O: **O**bservation
  U: **R**ecalculation and reperformance

Award up to 2 Mark for each point explained Maximum Marks 10

MODEL ANSWER

Step 1 – Identify the assertion tested

Audit procedures are performed in order to test financial statement assertions. Therefore, the first step in explaining an audit procedure is to **identify the assertion that needs to be tested**. The assertions embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur, may take the following forms:

Transactions and events	**Account balances at the period-end**	**Presentation and disclosure**
Occurrence	Existence	
Completeness	Rights and obligations	rights and obligations
Accuracy	Completeness	Completeness
Cutoff	Valuation	Completeness
Classification	Presentation	Classification and understandability

Completeness
This means that all transactions have been recorded in the financial statements – ie all assets, liabilities, equity interests (capital and reserves) and other disclosures have been included in the financial statements.

Occurrence
This assertion means that transactions and events and other matters that have been recorded actually took place – and relate to this organization.

Valuation and allocation
This mean that all items have been included in the financial statements at appropriate amounts according to company policy and the relevant financial reporting framework. Furthermore, any allocations or valuation adjustments required (like impairment) have been made and financial and other information is disclosed fairly and at appropriate amounts.

Classification and understandability
Financial information is appropriately presented and disclosed, and disclosures are clearly expressed so as to make them understandable to the users. For this, the disclosures should use simple language and state matters clearly and concisely.

Accuracy
Accuracy means that amounts and other data relating to transactions and events have been recorded at the correct amounts – ie at the amounts appearing in the source documents.

Rights and obligations
This mean that the entity has a right to its assets – ie it is free to use or dispose of the assets as it sees fit. Furthermore, the entity is obliged to pay off the liabilities that are shown in the statement of financial position.

Existence
This means that assets, liabilities and equity interests (capital and reserves) are physically present/belong to the entity on the reporting date.

Cutoff
This means that transactions and events have been recorded in the correct accounting period – for example, if goods are delivered prior to yearend, they are included in the cost of goods sold, not inventory.

Step 2: Identify the audit procedure

Explanation	**Example of substantive procedure relating to valuation of property, plant and equipment (PPE)**
Choose the assertion that will be tested	Choose an assertion from completeness, valuation and allocation, rights and obligations and existence if you are testing the period-end balance of PPE; valuation of non-current assets is the assertion tested
Identify the risk that will cause a material misstatement in the financial statements – the audit risk is the total value of PPE that may be misstated due to over-valuation/ undervaluation of PPE	One risk relates to the revalued assets not representing fair values, thus under/overstating PPE
Think of the audit procedures that should be performed in order to avoid the risk mentioned in step 1 (refer to 'AEIOU' below)	The auditor will agree the availability of a revaluation report (a source document for the revaluation) and confirm that the value mentioned in the valuation report matches the amount at which the PPE is revalued and shown in the financial statements. Furthermore, the auditor will recalculate the revaluation surplus in accordance with the provisions of IAS 16, *Property, Plant and Equipment* to confirm the correctness of the accounting entries relating to revaluation surplus. The amount added to revaluation surplus should be the difference between the net book value of PPE and the revalued amounts. The auditor should agree the assumptions used in the report for reasonableness. For example, the value per square feet in the valuation report should be similar to the value per square feet of other similar properties in that locality. There are many more procedures that will apply to this risk.

Follow the above method for testing other assertions too.

Choose audit procedures from AEIOU

A: **A**nalytical procedures
E: **E**nquiry and confirmation directly from a third party – ie inquiry
I: **I**nspection of records and assets
O: **O**bservation
U: **R**ecalculation and reperformance

Step 3: Note the following while writing down the audit procedure

1 Write it clearly
Audit procedures should be written in such a way that even a junior auditor will be able to understand what is to be done. For example, avoid vague procedures like 'check goods received notes'. This is vague as it does not explain what is to be examined in the goods received notes. Is it the description of items received, the quantity received or the name of the vendor?

2 Write down the reason for performing the audit procedure
The audit procedure 'check goods received notes' does not mention why the goods received notes are to be checked. Instead, write the audit procedure as: 'agree the description of items and the quantities ordered mentioned on the goods received note with the descriptions on the purchase orders raised on the vendor'. This confirms that the entity has procured goods based on an authorised purchase order.

3 Use audit terminology
Use terminology relating to audit like 'cast', 'agree', 'trace', etc. Use the word 'cast' to mean totaling up a list – for example, 'cast the trial balance'. Use the words 'agree' or 'trace' to mean matching information from two documents/ records – for example, 'agree the total sales of the sales day book to the general ledger account'; or 'trace a sample of trade payables to the purchase invoices, to confirm the existence of the rights to the goods purchased'.

(PART B) Marking Guide

Award up to 1 mark for each audit procedure on equity that is well explained Maximum Marks 5

Model answer

Audit Procedures for Rwambo Limited

Audit procedures for Equity

- Compare Rwambo Limited current year equity balances with prior year and ensure reasonableness of changes during the year.
- Enquire into and obtain explanations for any unusual changes during the year.

Test Rwambo Limited equity balances

- Obtain a schedule of all Rwambo Limited equity accounts showing number of shares authorized, issued, and outstanding at the beginning and end of the year and all transactions affecting equity (e.g., dividends, retained earnings) occurring during the year.
- Test the summarization of the schedule.
- Trace totals to the general ledger.
- Agree total of balances on the share registers with the issued capital at the balance sheet date.
- Agree changes in authorized or issued shares to minutes and documents filed with the registrar of companies.
- Trace to appropriate authorizations (e.g., board minutes, member's register).
- Agree Rwambo Limited number of shares and proceeds from issuance of new shares to cash receipts and supporting records. Compute the entries to par value of outstanding shares and paid in capital.
- Agree Rwambo Limited number of shares and value of redemptions to cash disbursements and supporting record
- Ensure compliance with the provision of Companies

a) Shares issued for cash consideration;

b) Bonus issue;

c) Issue of share for consideration other than cash; and

- Right issue of shares.
- Test entries to paid-up capital other than from the issuance of securities.
- Test entries to retained earnings other than from net income, dividends, and treasury shares.
- Examine documents supporting treasury shares transactions during the period. Confirm outstanding treasury shares.

Test Rwambo Limited dividends and retained earnings

- Determine that dividend payment and liability have been correctly recorded.

a) Review extracts of board minutes for dividends proposed and paid.

b) Re-compute calculation of dividends and trace total dividends to earnings statement.

c) Re-compute the liability for dividends.

- Agree changes in retained earnings (e.g., income, dividends) to supporting documentation and trace ending balance to general ledger and equity accounts.

Tests for presentation of Rwambo Limited Equity

- Determine that for each class of authorised shares, the title of issue, par or stated value per share, and the number of shares authorized, issued, and outstanding are properly recorded and disclosed.
- Determine that authorised shares, paid-in capital, reserves, and retained earnings are properly recorded, classified and/or disclosed, as appropriate.
- Determine that any shares options, warrants, rights, or conversion privileges existing at the balance-sheet date are disclosed properly.
- Determine that all transactions affecting shareholders' equity are properly recorded in conformity with applicable state laws.

Test shares option

Obtain a schedule of options granted, cancelled, and exercised during the audit period, and options outstanding, exercisable and available for future grant at the balance-sheet date.

a) Test the summarization of the schedule.

b) Review descriptions of the shares option plans and determine that all activity during the year is in compliance.

c) Agree options granted to board minutes and to schedule of changes in outstanding shares.

d) Determine that outstanding options are valid.

e) Agree option price of qualified shares options granted to market source.

f) Determine that compensation expense has been recorded on nonqualified shares options when appropriate.

g) Agree options cancelled or expired to supporting documentation (e.g., employee termination notice).

h) Evaluate results of the tests.

Audit of Rwambo Limited liabilities

Marking Guide:

Award up to 1 Mark for each point explained on audit of liabilities Maximum Marks 5

Audit Procedures for accrued Expenses

Accrued expenses

- Select Rwambo Limited purchase transactions over the period under audit and ensure the following controls have existed during the period: Purchase orders are approved at an appropriate level.
- Purchase orders are serially numbered.
- Entries are made only on the basis of approved Goods Received Notes (GRN).
- Entry to accrued expense account is authorized at appropriate level and supported by appropriate calculations.
- Suppliers' invoices are checked for calculation and casting by a person independent of the purchase department.
- Price charged by the supplier is verified for appropriateness, for e.g. by agreeing the rates charged to approved price lists or quotations.
- Suppliers' statements are obtained and reconciled to accounting records on a regular basis.
- Credit notes are checked for correctness of calculation by a person independent of the preparer.
- Credit notes have been entered in the same period to which the purchases relate
- Compare accrued expenses to prior periods and budgets seeking explanations for unusual items and significant variances.
- Review Rwambo Limited monthly movement of accrued expenses in order to identify any inconsistency particularly towards the period end.
- Analyse Rwambo Limited turnover of trade creditor – ratio of creditors to total operating costs and compare to prior periods and budgets, seeking explanations for unusual items and significant variances.
- Review the ratio of individual expense accounts to sales or another appropriate base.
- Review the accrued expense, purchases or expense ledgers to identify whether there are any significant purchases or expenses towards the period end. Check that these have been accounted for in the correct period.
- For selected subsequent cash disbursements or unpaid invoices that indicate liabilities incurred but not recorded as accounts payable in the audit period, ascertain that they were recorded in an appropriate accrued expense account.

Verification of Trade Payables

- ✓ Obtain a list of Mwale trade payables duly signed by a responsible person e.g. Chief accountant.
- ✓ Compare the above schedule with the purchase ledger, invoices credit notes, debit notes, goods inwards book, bills payable book and the cash- book.
- ✓ Check for cut-off.
- ✓ Write to creditors (suppliers) to obtain statements of accounts and reconcile them with clients' records.
- ✓ Check the Mwale gross profit margin and enquire into unreasonable charges.
- ✓ For trade debts that are overdue request for an explanation
- ✓ Compute the current year's creditor's turnover and compare it with previous periods and check for any negative variances.

Marking Guide:

Award up to 1 Mark for each point explained on audit of taxes Maximum Marks 5

Verification for taxation.

- ✓ Examine Rwambo Limited internal control system and especially the internal check-computation and recording.
- ✓ Obtain a schedule of tax liability.
- ✓ For tax paid during the year, request for the payment receipt from the income tax department.
- ✓ For disputes in tax liability, request for a provision equal to the surplus required by the tax authority.
- ✓ Recompute tax liability
- ✓ Ensure Rwambo Limited tax liability is property recorded.

(Total 25 Marks)

End of marking guide and model answer