



# ICPAR

Unlimited possibilities

---

**CERTIFIED PUBLIC ACCOUNTANT**  
**ADVANCED LEVEL 1 EXAMINATIONS**  
**A1.2: AUDIT PRACTICE AND ASSURANCE**  
**SERVICES**

**DATE: FRIDAY, 29 JULY 2022**

---

**INSTRUCTIONS:**

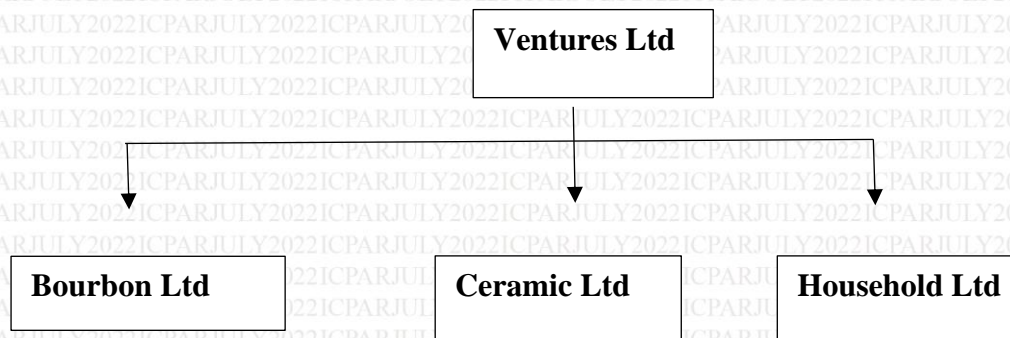
1. **Time Allowed: 3 hours 45 minutes** (15 minutes reading and 3 hours 30 minutes writing).
2. This examination has **two** sections; **A & B**.
3. Section **A** has **one** Compulsory Question while section **B** has three optional questions to choose any two
4. In summary attempt **THREE** questions.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



## **SECTION A**

### **QUESTION ONE**

Ventures Ltd is among the leading investment companies in Rwanda. It has grown gradually with a variety of successful products since its establishment 15 years ago. This has necessitated each product to be manufactured by a distinct subsidiary. It intends to introduce a restructuring with the following being the current group structure.



Each company information is given below:

Ventures Ltd is the parent company and is listed on Rwanda stock exchange. Its main activity is to invest in the subsidiary companies hence it's a none-trading entity.

Bourbon Ltd operates Nescafé outlets in Rwanda and abroad trading under the brand name “Bourbon Rwanda original”. It has considerable market share with operations covering over 1,200 bourbon outlets across Rwanda.

Ceramic Ltd deals with general ceramic accessories in excess of 150 retail stores. Its sales have reduced in the recent years, however its contribution to overall Venture’s revenue remained approximately 30%.

Household Ltd is a successful furniture distribution business, boasting of over 75 show rooms across Rwanda. It was acquired three years ago as part of diversification growth strategy.

### **Ventures restructuring**

As part of a strategy for continued growth in revenue and profitability restructuring of the group was eminent. To trigger this strategy, Ventures Ltd intends to invest FRW 480 million in Real-estate Ltd representing 50% of the company’s share capital. The rest of the shareholding is owned by Swemele Ltd, a property development company. The terms of the contract for the acquisition of 50% shareholding provides that Ventures Ltd will jointly construct six car parking bays at the two Rwanda international airports and all airstrips across the country. This investment in Real estate Ltd is projected to be implemented in October 2022.



In order to partly raise funds required for the restructuring and given the fact that there is decreasing sales from Ceramic Ltd, Ventures Ltd plans to dispose of Ceramic Ltd. By end of last year, the disposal decision had already been approved by the board of directors. Mugisha CPA an ICPAR registered firm of Certified Public Accountants carried out a due diligence. The due diligence was an independent review of the company's financial position and future prospects and produced a report on their findings, which is made available to potential buyers. Arising from this, several potential buyers have expressed an interest and Venture Ltd expects that the disposal will take place just after the financial year.

There has been exponential success of the Household Ltd brands motivating Venture Ltd to expand its furnishings business and for this case a target company for acquisition has been identified. It aims to acquire Mutaro Ltd which distributes attractive office furniture. Negotiations are underway, and it is likely that the acquisition will go ahead in the first quarter of the next financial year. The purchase price has yet to be agreed, but is likely to be around FRW 100 million. Due diligence performed on Mutaro Ltd indicates that the fair value of its identifiable net assets is FRW 85 million.

### **Bourbon Ltd buy-express**

Venture Ltd initially had 20 buy-express Nescafe outlets located on major roads, providing patrons convenience of buying Nescafe without alighting from their cars. This year Ventures Ltd opened 50 new buy-express Nescafe outlets, operating around the clock, seven days a week. This have proven to be extremely popular for drive-in customers. The associated capital expenditure recognized in property, plant and equipment was FRW 43 million which, according to the Venture Ltd finance director, includes the cost of constructing the Nescafe shops amounting to FRW 28 million, and the cost of acquiring three-year licenses to allow 24-hour trading, at a cost of FRW 15 million. Venture Ltd accounting policy is to depreciate property over 20 years, and a full year's depreciation will be charged in the current year in respect of the FRW 43 million capitalized.

According to Venture Ltd finance director, the new buy-express Nescafe outlets are projected to account for almost all the increase in revenue generated from the Bourbon Ltd in the year. This is based on data produced from the management information system. The system separately records revenue generated from the buy-express Nescafe outlets so that management can assess its performance and determine the return on the FRW 43 million of capital expenditure.

### **Government grant**

To reduce carbon emissions and energy consumption, the government provides grants to corporations which commit to investing in undertakings which advances this government objective. Secondly, grants are also available to corporations to promote the benefits of recycling hence efficient use of resources.

In January, Ventures Ltd received a grant of FRW 20 million. The only condition attached to the grant is that half of the amount must be used to upgrade existing assets to make them more environmentally friendly. None of the amount received has yet been spent, but it is planned



that it will be used to finance capital expenditure across Ventures Ltd property portfolio. The other half will be used to finance an advertising campaign.

According to Ventures Ltd finance director, the full FRW 20 million is included within operating profit in the projected group statement of profit or loss for the year.

**Table 1: Financial projections**

	<b>Projected to</b>	<b>Projected to</b>	<b>Actual to</b>	<b>Actual to</b>
	<b>30 November</b>	<b>30 November</b>	<b>30 November</b>	<b>30 November</b>
	<b>2022</b>	<b>2022</b>	<b>2022</b>	<b>2022</b>
	<b>FRW million</b>	<b>FRW million</b>	<b>FRW million</b>	<b>FRW million</b>
Subsidiary	Revenue	Assets	Revenue	Assets
Bourbon Ltd	155	200	110	160
Ceramic Ltd	99	110	103	113
Household Ltd	66	140	62	125
<b>Total</b>	<b>320</b>	<b>450</b>	<b>275</b>	<b>398</b>

The table above is based on management information which forms the basis of the segmental reporting disclosed in the notes to the financial statements.

**Table 2: Other Ventures Ltd financial information**

	<b>Projected to</b>	<b>Actual to</b>
	<b>30 November 2022</b>	<b>30 November 2022</b>
	<b>FRW million</b>	<b>FRW million</b>
Operating profit	76	72
Profit before tax	20	18
Total assets	475	450

### **Audit committee Notes**

There are three non-executive directors in Venture Ltd currently forming the group audit committee. There was a fourth non-executive director who was also the financial reporting expert of the group audit committee until January 2022. The group is looking for a replacement, which is proving challenging getting recruitment for this position. As a temporary stop gap rescue measure, it has requested that a senior partner from Mugiraneza CPA become a member of the group audit committee while a replacement is being sought.

In addition, the group audit committee is seeking to appoint a firm of professional accountants to perform corporate finance work in relation to the planned Venture Ltd restructuring. The audit committee understands that Mugiraneza CPA cannot provide this non-audit service as it would create a significant threat to auditor objectivity. However, the audit committee has asked if Mugiraneza firm can recommend a different firm to perform the work.

Arising from discussions, the managing partner of Mugiraneza CPA has recommended Kabanga Associates, an unrelated firm, to carry out the work. If Kabanga Associates is appointed,



Mugiraneza CPA will charge Kabanga Associates a referral fee equivalent to 10% of the fee for the corporate finance engagement.

In addition, the audit committee has asked Mugiraneza CPA to work with Venture Ltd internal audit team to design internal controls over the part of the accounting system which deals with revenue, and also evaluate the operating effectiveness of the internal controls.

**Required:**

**(a) Evaluate the significant audit risks to be considered in planning the group audit for the financial year ending 30 November 2022.** Given the planned Venture Ltd restructuring, you should evaluate audit risks relating to disclosure issues at this stage in the audit planning. (24 Marks)

**(b) Identify the additional information which should be requested from management in order to effectively audit the disposal of Ceramic Ltd, and explain why this information is required.** (4 Marks)

**(c) Design the principal audit procedures to be performed in respect of:**

**i) The classification of the FRW 480 million investment in Real estate Ltd.** (6 Marks)

**ii) The government grant of FRW 20 million received in January 2022.** (6 Marks)

**(d) Using the audit committee notes, discuss any ethical issues relevant to Venture Ltd audit, and recommend appropriate actions to be taken by our firm.** (10 Marks)

**(Total: 50 Marks)**



## **SECTION B**

### **QUESTION TWO**

You are the manager responsible for the audit of Kayonza Manufacturing Ltd, a Rwanda stock exchange listed company dealing in the production and fixing granite floor tiles for residential and commercial buildings. You are currently reviewing the draft auditor's report on the company's financial statements for the year ended 31 March 2022. Extracts from the draft auditor's report are shown below:

#### **Independent auditor's report to the shareholders and directors of Kayonza**

##### **Basis for opinion**

We conducted our audit of Kayonza Manufacturing Ltd in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements which are relevant to our audit of the financial statements in the jurisdiction in which the Company operates, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### **Opinion**

We have audited the financial statements of Kayonza Manufacturing Ltd, which comprise the statement of financial position as at 31 March 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 March 2022, and of its financial performance and its cash flows for the year then ended in accordance with IFRS Standards.

##### **Material uncertainty regarding going concern**

The Company is financed by a long-term loan from its bankers which is due for redemption in August 2022. At the date of this auditor's report, the Company is in the process of renegotiating the loan but has not yet reached a final agreement with its bankers. It is our view that the loan finance is essential to the continued survival of the Company and that at the time of reporting, therefore, the absence of a finalized agreement represents a material uncertainty regarding going concern. The financial statements have been prepared on a going concern basis but do not make any reference to the loan redemption or the ongoing negotiations with the bank. As the external auditor therefore, we are fulfilling our duty by bringing the matter to the attention of users of the financial statements.



### Other information

The Company's principal activity is production and fixing granite floor tiles for residential and commercial buildings. The Company therefore engages in long-term contracts which are incomplete at the reporting date and which are material to its revenue figure. The installation process is complex and significant judgement is applied in assessing the percentage of completeness which is applied to calculate the revenue for the year. The significance of this judgement requires us to disclose the issue as other information which is relevant to the users of the financial statements.

### Required:

**Critically appraise the draft auditor's report for the year ended 31 March 2022.**

(25 Marks)

**(Total: 25 Marks)**

### QUESTION THREE

You are a manager in Mwisigye & Nalongo consultants, a firm of Certified Public Accountants which offers diverse accounting services. Your firm has been asked to consider a potential engagement to review and provide an assurance report on prospective financial information (PFI) for Liboye Hardware Ltd, which is not your audit client. In line with money laundering regulations Mwisigye & Nalongo consultants have already conducted specific client identification procedures with satisfactory results.

Liboye Hardware Ltd has approached your firm to obtain an independent assurance opinion on a cash flow forecast which is being prepared for its bankers in support of an application for an increase in its existing overdraft facility. The following cash flow forecast has been prepared by Liboye Hardware Ltd for the 12 months to 30 June 2022:

### Liboye Hardware Ltd cash flow forecast for the 12 months ending 30 June 2022

	3 months to 30 September 2021 FRW'000	3 months to 31 December 2021 FRW'000	3 months to 31 March 2022 FRW'000	3 months to 30 June 2022 FRW'000
Operating cash receipts				
Cash sales – high street shops	4,343	4,690	5,065	5,471
Cash sales – online	6,782	7,053	7,335	7,628
Receipts from credit sales – online	11,987	12,346	12,717	13,099
	23,112	24,089	25,117	26,198
Operating cash payments				
Purchases of inventory	(10,846)	(11,388)	(11,730)	(12,316)
Salaries	(7,254)	(7,109)	(7,180)	(7,384)



Overheads	(6,459)	(6,265)	(6,391)	(6,659)
	(24,559)	(24,762)	(25,301)	(26,359)
Other cash flows				
Initial costs	(2,143)	(1,128)		
Online marketing campaign	(624)	(431)	(386)	(278)
	(2,767)	(1,559)	(386)	(278)
Cash flow for the period	(4,214)	(2,232)	(570)	(439)
Opening cash	(9,193)	(13,407)	(15,639)	(16,209)
Closing cash	(13,407)	(15,639)	(16,209)	(16,648)

Relevant additional information:

1 Liboye Hardware Ltd is a supplier of hardware and related auxiliaries which is sold through its own Hardware shops plus online portal through its website. Online sales were necessitated by Covid 19 related movement restrictions. Sales from website includes cash and credit to construction sites. Historical analysis from its debtor's ledger is as follows:

Month of sale	After 30 days	After 60 days	After 90 days	Remainder not collected
10%	62%	16%	8%	

2 Suppliers grants a credit period of 45 days and to encourage early repayment a discount of 8% is given if payments is made within 14 days. Otherwise, there is a late payment penalty of 5% if payment delays beyond 45 days.

3 Liboye Hardware Ltd has commercial presence in all major towns with masterplan however due to the current depression there has been decrease in sales and liquidity. In mitigation to the declining trend the company plans to establish hardware shops in all identified satellite towns and along major roads linking provinces and districts.

4 Liboye Hardware Ltd's management is planning an online marketing campaign targeted at districts one stop center where construction permits are issued. It is their conviction that this strategy will increase the company's market share by roughly 3%.

5 Liboye Hardware Ltd's has an existing overdraft facility of FRW 12 million with Access Bank Rwanda Ltd and has requested FRW 17 million increase.

**Required:**

**(a)(i) Explain the matters to be considered by Mwisigye & Nalongo consultants before accepting the engagement to review and report on Liboye Hardware Ltd's prospective financial information. (6 Marks)**

**(ii) Assuming Mwisigye & Nalongo consultants accepts the engagement, recommend the examination procedures to be performed in respect of Liboye Hardware Ltd's cash flow forecast. (9 Marks)**



**(b) You have a second assignment of providing an accountant's report for an audit client, Kimironko Ltd, which intends to list on the Rwanda Stock exchange in September 2022.**

Kimironko Ltd has been an audit client of Mwisigye & Nalongo consultants for the last eight years, preparing its financial statements to 31 March each year. Throughout this period, the Managing partner at your firm, Frank Kwelime, has taken personal responsibility for the audit and has increased the total fee income from the client to the level where it represented 16.2% of Mwisigye & Nalongo consultants's total fee income in 2022 (15.4%: 2021). In addition to performing the annual audit, Mwisigye & Nalongo consultants also provides accounting and bookkeeping services for Kimironko Ltd. The accounting and bookkeeping services include the preparation of the monthly payroll for the client and maintaining all of the financial records of a small, immaterial division of the company.

The Managing Director of Kimironko Ltd, Maggy Shalon, has asked your firm for assistance in the preparation of the share prospectus document which will be used to support the company's flotation. The contents of the prospectus document will include the following elements:

- ❖ Key historical financial information prepared to 31 August 2022;
- ❖ Profit forecasts;
- ❖ A summary of the key risks relating to the client's business; and
- ❖ A business plan outlining the future prospects of the company and recommending the shares to investors.

Maggy Shalon has asked if Mwisigye & Nalongo consultants can also provide an accountant's report which will be included in the prospectus, and which will cover each of these elements.

Kimironko Ltd is also currently reviewing the audit appointment and is looking for an audit firm which is capable of taking it through the listing process and providing a full range of services in the future.

**Required:**

**Comment on the ethical and professional issues arising as a result of Kimironko Ltd's planned listing and the services which it has requested from Mwisigye & Nalongo consultants.** (10 Marks)

**(Total: 25 Marks)**



## QUESTION FOUR

Yolati Retailers Ltd a listed company has been your firm audit client for the last ten years. An independent review of its working papers is required for which you have been requested to undertake the review. The review will include advising the audit team on the drafting of their report to those charged with governance.

Yolati Retailers Ltd is fast moving consumer goods retailer operating 85 supermarkets countrywide. The financial statements for the year ended 30 April 2022, recognize sales of FRW 247 million (2020 – FRW242 million), profit before tax of FRW 14.6 million (2020 – FRW 14.1 million) and total assets of FRW 535 million (2020 – FRW 321 million).

In the year 2021 Yolati Retailers Ltd witnessed massive expansion by strengthening its existing position within the market and maintained status quo without acquiring any extra supermarkets. The company's draft statement of financial position for 2022 includes a property portfolio of FRW 315 million all of which are legally owned by the entity. In the current year, the company has chosen to adopt a policy of revaluing its property portfolio for the first time and this is reflected in the draft figures for 2022.

The audit work on property, plant and equipment included testing a sample of the revaluations. Your audit firm requested at the planning stage that independent, external valuation reports should be made available to the audit team at the start of the final audit visit. A number of these documents were not available when requested and it took three weeks for them to be received by the audit team. The audit working papers also identify that on review of the non-current asset register, there were four properties with a total carrying amount of FRW 11.1 million which had not yet been revalued and were still recorded at depreciated historic cost.

The audit supervisor's review of Yolati Retailers Ltd board minutes identified that the company has renovated car parking facilities at 17 of its stores which has resulted in a significant increase in customer numbers and revenue at each of these locations. The total cost of the renovation work was FRW 13.2 million and has been included in operating expenses for the current year. The audit file includes a working paper recording discussions with management which confirms that capital expenditure authorization forms had not been completed for this expenditure.

You are aware that your firm had intended to replace the current engagement partner, Robert Mudakikwa, with Charles Niyitegeka who is other specialist in fast moving consumer goods business. Unfortunately, Charles Niyitegeka got sick and was hospitalized, consequently he will not be available until next year's audit engagement. In effect this implies that Robert Mudakikwa in 2021 will be acting as the engagement partner for eighth consecutive year.

### **Required:**

**From the information provided above, recommend the matters which should be included in report to those charged with governance, and explain the reason for their inclusion**

(25 Marks)

**(Total: 25 Marks)**

**End of question paper**



**BLANK PAGE**



**BLANK PAGE**