

---

---

**CERTIFIED PUBLIC ACCOUNTANT**  
**ADVANCED LEVEL 1 EXAMINATIONS**

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

**DATE: FRIDAY 01, DECEMBER 2023**

---

---

**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 the examination room.



## **SECTION A**

### **QUESTION ONE**

You are the engagement manager for the audit of financial statements of Connected Rwanda Ltd, for the year ended 30 September 2023. Connected Rwanda Ltd is a new client.

Connected Rwanda Ltd is one of largest telecommunication companies in Rwanda and it is a subsidiary which is wholly owned by Connected International based with the parent company in the United Arab Emirates (UAE). Connected Rwanda Ltd as a subsidiary was launched in 2019 and it has grown its customer base up to 4 million by 30 June 2023. The company offers voice, data and money transfer services. Telecommunication is an industry that requires heavy capital investment. Shareholders have plans to expand to other regional markets after the Rwandan subsidiary becomes financially stable. Connected Rwanda Ltd expects to recoup the investment made within the next 15 years and to be profitable after 5 years.

See below the extracts of financial statements of Connect Rwanda ltd:

<b>Particulars</b>	<b>30 September 2023 (Draft)</b>	<b>30 September 2022 (Audited)</b>
	<b>FRW'millions</b>	<b>FRW'millions</b>
Revenue	41,800	40,500
Operating expenses	40,200	42,000
Non-current assets	68,400	60,350
Trade and other receivables	35,000	30,000
Accumulated losses	(279,000)	(302,000)
Long-term borrowings	49,000	55,000
<b>Total assets</b>	<b>135,000</b>	<b>121,000</b>
<b>Profit before tax</b>	<b>(23,400)</b>	<b>(19,250)</b>

Connect Rwanda Ltd uses various systems that are mostly provided by Connected International as summarized below:

#### **Airtime**

A customer can load airtime by purchasing an airtime card or top up via the agents spread across the country, or by using the mobile money wallet. Airtime charges are computed via CompX, a computerized system which refers to the approved cost per second loaded in the system. The CompX system is accessible online most of the time, however, it occasionally experiences technical problems and interruptions which affects customers. Connect Rwanda Ltd's management does not have an IT team in charge of following up the system to ensure that it is working adequately and smoothly. There have been complaints from users saying that occasionally, charges are not commensurate with the call time made. The Rwanda Utilities Regulatory Agency (RURA) is the regulator of public utilities, including telecommunications services. It was reported that RURA is investigating the claims raised by the customers against Connected Rwanda Ltd.

## **Internet data**

Connected Rwanda Ltd offers 3G and 4G internet at different rates. Connected Rwanda Ltd uses a “QantX” system to set and implement the quarterly rates charged for the internet data products. However, Connected Rwanda Ltd does not have control over the “QantX” system or the assurance that this system will appropriately apply the correct charge-out rates to the customers. This is because the “QantX system” is not based in or operated from Rwanda as it is based and controlled by the parent company, Connect International directly from United Arab Emirates (UAE). Revenue contribution from data has been growing with an average annual growth of 20%. This is mainly due to the introduction of affordable internet bundles attractive to young people.

Connected Rwanda Ltd sources its 4G from only one licensed 4G provider in the Rwanda. In the recent developments, the regulator in Rwanda has formally announced that with effect from the year 2024, other operators including telecommunication companies will be allowed to sell their own 4G internet.

The total loaded airtime for voice or internet packs/bundles is immediately recognized by Connected Rwanda as revenue instantly after the customer loads airtime and internet data on his/her mobile account.

## **Mobile money services**

Connected Rwanda Ltd launched its mobile money transfer services 2 years ago. It currently has about 2.5 million users of the mobile money services, and the customer number of this revenue stream is expected to grow in the near future. During the year under review, the company processed FRW 20 billion worth of transactions. The mobile money transfer charges for Connected Rwanda Ltd are not competitive and customers have continued to request Connected Rwanda Ltd to reduce the charges for mobile money transfers.

There have been issues with fraud on customers’ accounts, whereby imposters call random customers pretending to be staff of Connected Rwanda Ltd. In this fraud, the fraudsters request the customers for their mobile money wallet passwords and customers find out later that their mobile money has been fraudulently withdrawn from the mobile money accounts. Also, it was reported in the previous auditor’s report that there was inappropriate access and approval restriction on some of the staff dealing with mobile money services.

## **Other information:**

Recently, the National Bank of Rwanda (BNR) has published a regulation requiring telecommunication companies to split the telecommunication services and money transfer businesses, as the latter falls in the scope of a financial services which bear public interests and require scrutiny.

A new managing director was hired at the start of the year; however, he resigned on 30 June 2023 after realizing that the targets assigned by the board of directors on costs cutting and costs



reduction were not achievable. This was also coupled with frustration of lack of the group company support to recruit more staff with the right competences to beef up the local team.

In a bid to increase revenue, Connected Rwanda Ltd has implemented an relaxed credit policy for corporate clients with a credit period extended from 30 days to 90 days. This has significantly affected its cashflow situation and the ability to service its liabilities as they fall due.

Connected Rwanda Ltd.'s long-term borrowings include borrowings from local market and international lenders in the portion of 55% and 45% respectively. The increase in the balance on the borrowings at the reporting date was caused by poor servicing of some of the loans resulting into the lenders imposing interest and penalties on Connected Rwanda Ltd for the unpaid loans with the effect that this increased the loan balances in the year.

Akeza Technics Ltd is a company with a contract from Connected Rwanda Ltd to provide repairs and maintenance for all the towers used in the services of Connected Rwanda Ltd. In the maintenance contract, Akeza Technics Ltd provides monthly reports to the management of Connected Rwanda Ltd. These reports are received by the logistics staff who later pass over the approved reports to the finance staff to process payments to Akeza Technics Ltd for the work done. In one of the reports, it was confirmed that a review of an impairment was done and this revealed that a provision of FRW 6 billion was required arising from the faults and damages on some of the towers of Connected Rwanda Ltd.

During your subsequent events review, you were informed that Connected Rwanda Ltd is in advanced discussions with Connected International to open a subsidiary in Burundi, which will be wholly owned by Connected Rwanda Ltd.

### **Required:**

Using the information relating to Connected Rwanda Ltd:

- (a) Explain how you would obtain a reasonable comfort that you understand Connected Rwanda Ltd in line with ISA 315 for the audit of its financial statements for the year ended 30 September 2023? (10 Marks)**
- (b) Evaluate the business risks that should be considered in planning the audit of Connected Rwanda Ltd's financial statements for the year ended 30 September 2023. (14 Marks)**
- (c) Evaluate the principal risks of material misstatements to be considered in planning of the final audit of financial statements of Connected Rwanda Ltd. (16 Marks)**
- (d) Your engagement partner has requested you to use analytical procedures on financial and non-financial data to ensure that they help you to identify risky areas and anomalies as you conduct a risk-based audit. Explain how analytical procedures would assist you in this process? (10 Marks)**

**(Total: 50 Marks)**

## **SECTION B**

### **QUESTION TWO**

You are an audit manager for the audit of the financial statements of a construction company “Turwubake Group Ltd (TGL)”, headquartered in Kigali Rwanda for the year ended 31 December 2022. TGL is a fast-growing company offering services in construction of roads, commercial and residential houses, and other various types of infrastructure to various clients in Rwanda and from other regional countries.

TGL has two subsidiary companies namely “Best Roads Ltd”, which specializes in construction of roads and “Tubeheza Ltd” which specializes in construction of residential and commercial buildings.

The main client for TGL and its subsidiaries is the Government of Rwanda which contributes 45% of consolidated revenue. Other local and international clients contribute the remaining 55% of its annual revenue. The company has recently seen prospects in other regional countries such as South Sudan and Central African Republic (CAR), where diplomatic ties have been established with Rwanda. The Government of Rwanda through its foreign affairs ministry has been encouraging local companies to explore various business opportunities in those counties.

Today is 1 July 2022 and your engagement leader has requested your team to conduct an interim audit, particularly focusing on opening balances. See below the extract of abridged TGL and subsidiaries financial statements:

<b>Particulars</b>	<b>(Consolidated) 1 January 2022</b>	<b>Turwubake Group Ltd ("the parent") 1 Jan 2022</b>	<b>Best Roads Ltd 1 Jan 2022</b>	<b>Tubeheza Ltd 1 Jan 2022</b>
	<b>FRW'millions</b>	<b>FRW'millions</b>	<b>FRW'millions</b>	<b>FRW'millions</b>
Non-current assets	21,000	2,000	1,5000	4000
Inventory	18,500	500	7,000	11,000
Non-current assets held for sale	5,500	5,500	-	-
Receivables	7,000	2,000	1,500	3,500
Revenue	17,340	2,240	9,500	5,600
Operating expenses	12,250	1,500	7,000	3,750



### **Additional information:**

1. This is your first year's audit for TGL financial statements. As part of your audit procedures to review opening balances, you planned to review the working papers of the predecessor auditor; however, the predecessor auditor has not responded to your requests.
2. One of the machines at Best Roads Ltd with the carrying amount of FRW 2,000 million was found damaged in January 2022. The management is not sure if the damage occurred in January 2022 or prior to that period.
3. Inventory includes construction materials worth FRW 4,000 million which were transferred from Best Roads Ltd to Tubeheza Ltd, which valued by Tubeheza Ltd at FRW 2,500 million only. The transfer of the inventory by Best Roads Ltd occurred in December 2021 while Tubeheza Ltd received the inventory on 2<sup>nd</sup> January 2022.
4. Operating expenses includes a provision from a lawsuit of two former employees at Best Roads Ltd worth FRW 500 million which was submitted to court in May 2021. On 5 February 2022, this legal case was dismissed by the Judge since the company was not found guilty of any wrongdoing.
5. Non-current assets held for sale consists of trucks and other machinery that the Group wants to dispose as new trucks and machinery that are more efficient will be bought this year. A potential client submitted a bid in March 2023 for FRW 6,000 million.

The Group CFO, Mr Karezi is very passionate to driving the group and its subsidiary to adopt environmental, social, and governance (ESG) and sustainability standards. The CFO believes that sustainability reporting will improve the companies' image to its stakeholders and enable the companies to raise affordable financing. Young generations will also feel more associated with the company, particularly new home-owners.

### **Required:**

In reference to the information regarding TGL:

- (a) With reference to ISA 510: **initial audit engagements - opening balances, explain your audit procedures that shall be applied to review TGL opening balances.** (8 Marks)
- (b) **Evaluate the impact of the above discussed issues on the opening balances on the current year's audit.** (10 Marks)
- (c) Assume the CFO has requested your audit firm is hired to advise TGL on the adoption of ESG and sustainability reporting, **advise on how the group should approach ESG and sustainability reporting.** (7 Marks)

**(Total: 25 Marks)**

### QUESTION THREE

Integrated reporting ('<IR>') provides a conceptual framework about how the company does business and it communicates long term value proposition to the market. It aims to promote trust in business, stimulating long-term investment, robust corporate governance and responsible capitalism which are at the top of business and government agendas.

Integrated Reports encourage quality reporting through voluntary disclosure of relevant information beyond the usual annual financial reports that are guided by the legal and regulatory requirements. Integrated reporting helps organizations to better assess and respond to both risks and opportunities and enables informed decision making around resource allocation and viable investments.

Various jurisdictions have adopted integrated reporting whereby companies, particularly public entities are required to produce annual integrated reports that report on financial and non-financial performance. This enhances a better understanding to users about how the company creates value. In Rwanda, the Capital Market Authority and the National Bank of Rwanda have required listed entities and financial institutions to prepare integrated reports.

You are an audit Manager at KTP CPAs and your firm was hired by BBG Group Ltd, a listed company on Rwanda Stock Exchange (RSE) to conduct a review of its integrated annual report to be published for the year ended 31 December 2022. The review will be conducted in line with ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information. Your firm was also the auditor for the financial statements for the year ended then. The personnel of your firm have not done a similar assignment before and are therefore counting on your guidance and experience as you lead this assignment.

#### **Required:**

- (a) In line with ISAE 3000 (Revised), **advise your firm's engagement team on the objectives and nature, timing and extent of obtaining evidence in regard in the review of BBG Group Ltd's integrated report.** (10 Marks)
  - (b) In line with ISAE 3000, **Explain what type of assurance on integrated annual report that can be issued.** (3 Marks)
  - (c) **Evaluate key assurance challenges that your firm is likely to encounter during this engagement.** (10 Marks)
  - (d) **With clear examples, explain the impact that non-financial matters such as social and environmental may have on the financial statements of BBG Group.** (2 Marks)
- (Total: 25 Marks)**



## QUESTION FOUR

You are a senior audit manager at Mugabo and Associates Certified Public Accountants. Your firm specializes in the construction sector with a large number of clients in that sector. You have been hired to audit the financial statements for the year ended 30 June 2023 of Kigali Construct Ltd (KCL), a construction company based in Kigali.

During your engagement meeting, you were informed of the following.

- There was a revenue increase from FRW 12 billion to 15 billion from 2022 to 2023. This was due to a new contract worth FRW 5 billion that was awarded by the Ministry of Defense to construct three new barracks and two new offices. The contract is for 3 years starting from July 2022, however, 50% of the contract value was paid as an advance in August 2022.
- KCL completed its own 5-storey office building, whereby only 20% will be occupied as office and 80% rented out to tenants. The building cost is FRW 1.5 billion. The completion date was May 2023.
- After the draft financial reports were shared with you as auditors, the management noted that some materials worth FRW 200 million used in the construction of the own-building were charged to clients and a portion of that construction cost of FRW 50 million was recognized as expenses.
- Part of the revenue includes a property built for the client “Shema business Ltd” for an agreed contract value of FRW 800 million. The client could not pay the outstanding balance of FRW 300 million and KCL agreed amicably with Shema business Ltd to transfer ownership of the building from Shema Business Ltd to KCL and KCL to pay Shema Business Ltd a balance of FRW 500 million within 2 years starting from September 2023 as settled between parties.

### Required:

- (a) i) **Clearly explain the steps used in the recognition of revenue from contracts in line with IFRS 15 “Revenue from contracts with customers” for KCL clients as illustrated above and show the respective audit objective to be achieved under audit of each step.** (5 Marks)

- ii) **Evaluate the impact of the above transactions on the audit of KCL financial statements for the year ended 30 June 2023.** (12 Marks)

- (b) You are an audit partner at the firm which is in the process of tendering for an audit of a parent company that has subsidiaries in East and Southern Africa. The audit will be for the financial statements for the year ended on 30 June 2024. The subsidiary companies are in different business such as mining, trading and manufacturing. **Explain to your audit partner the considerations that should be considered by your firm before accepting the appointment or bidding for a parent company of the group.** (8 Marks)

**(Total: 25 Marks)**

**End of question paper**