CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.2: AUDIT PRACTICE AND ASSURANCE SERVICES

DATE: FRIDAY, 01 APRIL 2022

MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE

Marking guide

Parts (a), (b) and (c): The student can choose to present each point in any reasonable format addressing all the three requirements in this part for example by using a tabular format incorporating all the three requirements in one table or can choose to have its part presented separately.

(a) Business risks faced by Uwera PZ that should be considered in the planning of the final audit

i) Human Resources Function

- Risk at the recruitment stage, persons without experience may be recruited 1
- lack of training in the use of the playing equipment may result in damage to the children 1
- Inappropriate workers, such as those with criminal convictions, might be employed 1
- Absence of cross reference, workers may misappropriate or misuse company property 1
- A high staff turnover increases the risk of staff recruitment costs and loss of experienced staff 1

ii) **Procurement function**

- Absence of an approved list of suppliers, there is a risk of fictitious suppliers 1
- Absence of a procurement committee, risk company does not obtain the best value for money 1
- One staff employed in the procurement risk of delayed procurements 1
- Risk of non-segregation of duties in the procurement office with only one staff 1
- Absence of adequate reviews risk of inaccurate, delayed or incorrect payments 1
- Payments made to suppliers in cash will expose the company to mis-use or theft of cash 1

iii)**Marketing Function**

- The third-party advertiser may be in breach of advertising regulations reputational risk 1
- The type of aggressive direct mail advertising may actually damage the reputation 1
- There is a risk of extensive marketing expenditure not resulting into new customers 1

Maximum 10

(b) Controls that Uwera PZ should put in place to manage the risks identified in (a) above

Human Resources Function

- All workers should be required to fill in application forms and submit references 1
- Immediately after recruitment all workers should receive proper training 1
- References should be cross checked for all the new workers &should provide details 1
- Only appropriately trained and experienced workers are allocated to high-risk play areas 1

- There should be documentary controls over the movement of portable and small children 1
- The company should have investigation and disciplinary procedures 1
- The play guide workers should receive regular feedback on their performance 1

Procurement function

- An approved list of suppliers should be in place at all times, and this should be reviewed 1
- Authorization controls should ensure procurement committee authorizes new suppliers 1
- Authorization checks on invoices should ensure that only goods received are paid 1
- Controls over the purchase ledger such as reconciliations with control account 1
- There should be regular documented negotiations with the approved suppliers 1

Marketing Function

- Contract with third-party advertising company should be accordance with regulations 1
- The third-party advertising company should submit advertising for approval 1
- There should be proper budgeting for advertisement costs, and a regular review of costs 1
- Cost controls ensure discounts are not so great as to make contracts unprofitable 1

Maximum 10

(c) Tests of controls that your audit firm should perform to confirm that the controls identified in (b) above are operating effectively

Human Resources Function

- Take sample of the workers from the payroll and inspect the relevant application forms 1
- References should be inspected to confirm adequate support for the recruitment decision 1
- Obtain and inspect the staff training reports to confirm the adequacy of the training 1
- High-risk children's areas such as swimming pools, ensure that only trained workers are utilized.1
- Documentation showing the movement of portable and small children play tools 1
- Review the result of customer satisfaction surveys 1
- Inspect the documentary evidence of staff reviews 1

Procurement function

- Inspect the list of suppliers to confirm it is approved and updated 1
- Review sample of suppliers on the approved list and inspect evidence of their authorization 1
- Analytically review the level of payments for, and utilization of, goods on a periodic basis 1
- Review sample of invoices, credit notes and other documentation for evidence of matching 1
- Review and critically assess the documentation negotiations and discussions with suppliers 1

Marketing Function

- Review the contract of advertising company, and the advertising materials 1

- Inspect any legal advice received by Uwera PZ prior to signing off the advertising contract 1
- Obtain documentary evidence to show that the advertising material has been approved 1
- Review budgets and management accounts to ensure that advertising 1

Note: *Other relevant issues that are valid should be awarded credit of 1 mark each where the issue in regard to information provided in the scenario relating to the three departments for Uwera PZ, the student correctly explains the business risk and/or internal controls and/or tests of controls for example risks, controls and tests of controls relating to health and safety procedures*

Maximum **10**

d) **Internal Control Deficiency**

- Workers can use their electronic identification cards to log in and out without monitoring 1
- Overtime work by the play guide workers is not authorized appropriately and monitored 1
- The passcode used is known by all staff in the accounts department 1
- Processing of the monthly payroll does not allow for segregation of duties 1
- Setting up bank accounts done by the payroll accountant without independent review 1
- Payment of the wages worker's bank accounts made by one member without authorization 1
- Review of wages done by the Finance Director every month most on an ad hoc basis 1

Maximum **4**

Implication of the internal control deficiency

- Workers can be paid even where not worked 1
- Workers could be paid for overtime when they are not actually working 1
- Un-authorized individuals could log onto the system and enter extra hours 1
- Fictitious play guide workers could be set up on the wages system 1
- In the absence of sufficient reviews into additional wages paid for un-worked hours 1
- Fictitious bank accounts could be set up with the intention of committing fraud 1
- Un-authorized payments into the play guide workers' and fictitious bank accounts 1
- There is no regular monitoring of wages by the senior management team 1

Maximum **4**

Auditor's recommendation

- Supervisors should reconcile the number of play guide workers with the computer records 1
- Workers' overtime be reviewed by guide supervisors and authorized by head of department. 1
- Overtime costs should be monitored closely on a regular basis 1
- The passcode should immediately be changed from a simple "first name" 1
- The computer system should be set up so that the passcode has to be changed 1
- Independent reviews by other relevant departments such as the Human Resources function 1
- The Human Resources function should independently review and bank account details 1

- The payroll and final pay workers should be authorized by the Finance Director 1
- The Finance Director should review payroll costs on a monthly basis 1

Maximum **4**

Two professional marks should be awarded to part (d) for:

- A report format at least bearing the relevant details for the addressee 1
- An appropriate introduction and a conclusion paragraph (the same mark can still be award where the student only provides an appropriate "introduction" without a "conclusion") 1

Maximum **2**

Note: *In Part (d), it is acceptable where the student chooses to use a tabular format to present each point addressing all the three requirements in this part*

(e) **Substantive analytical procedures – in respect to the senior management salary system**

(i) Perform a proof in total of the salaries charge for the year using the prior year charge 2
Expectation: The figures should be comparable with the exception of the salary increase
(ii) Perform a comparison of the annual charge to the prior year and to the budgeted figure 2
Expectation: The figures should be comparable with the exception of the salary increase of 5%
(iii) Review monthly salaries month by month taking into account any starters and leavers 2
Expectation: The figures should be about the same each month
(iv) Recalculate the total amount for the salary increase in June and December 2
Expectation: The salary increase in the months of June and December should match the 5%
(v)Standard increase implemented in the two months and the annual bonus of 10% 2

Maximum **6**

Model answers

Parts (a), (b) and (c): Using a tabular format *(the student can choose to present each point in any reasonable format addressing all the three requirements in this part for example separately and this is acceptable)*

(a) Risks	**(b) Controls**	**(c) Tests of Controls**
Human Resources department		
There is a risk that at the recruitment stage, persons without experience or training in children handling may be recruited as Play Guides. This may expose the company to poor handling of the children particularly the very young children (toddlers) leading to loss of reputation and customers. In addition, lack of training in the use of the playing equipment may result in damage to the children playing equipment of the company. Inappropriate workers, such as those with criminal convictions, might be employed which exposes the company to further criminal offences impacting negatively on the company reputation and legal penalty exposures. In the absence of cross reference checking for new workers and/or inadequate supervision, workers may misappropriate or misuse	All Play Guides should be required to fill in proper application forms and submit references with them before their recruitment. Immediately after recruitment: All workers particularly those without adequate experience should receive proper training References should be cross checked for all the new workers. Where applicable in line with the specific laws, the workers should be asked to provide details of any criminal convictions Systems for allocating workers to high-risk play areas should ensure that only appropriately trained and experienced workers are allocated to high-risk play areas like swimming pools by means of (say) a staff classification system There should be documentary controls over the movement of portable and small children play tools which should be	The auditor should: • Take a representative sample of the workers from the payroll and inspect the relevant application forms to ensure they have been properly completed. • References should be inspected to confirm their adequate support for the recruitment decision • Obtain and inspect the staff training reports to confirm the adequacy of the training in line with the nature of the job requirements • For a sample of high-risk children play areas such as swimming pools, ensure that only appropriately classified as trained workers are utilized. • Take a sample of entries in the documentation showing the movement of portable and small children play tools and ensure that appropriate entries in the systems have been made, reviewed and approved • Review the result of customer satisfaction surveys and establish if appropriate

company and customer property especially the portable play tools. A high staff turnover increases the risk of staff recruitment costs and loss of experienced /trained staff	signed off by the Play Guide supervisors at the beginning and at the end of every working day. The company should ask customers regularly about the levels of satisfaction with the service provided and have investigation and disciplinary procedures in place where allegations of misappropriations are made. The Play Guides should receive regular feedback on their performance and be rewarded for good performance and long service	management responses have been made • Inspect the documentary evidence of staff reviews, review and assess by which good performance and long service are rewarded, and for a sample of staff with good reviews and/or long service records, determine whether the rewards are appropriately given
Procurements department		
In the absence of an approved list of suppliers, there is a risk of fictitious suppliers and/or fraudulent payments to suppliers In the absence of a procurement committee, there is a risk that the company does not obtain the best value for money in obtaining best quality goods and services With only one staff employed in the procurement office and considering a potential large number of procurements needed due to the size of the company, there is a risk of	An approved list of suppliers should be in place at all times and this should be reviewed periodically to ensure all supplies are made from approved suppliers Authorization controls should ensure that an appropriate, an independent official (in senior management) or the procurement committee other than the procurement officer authorizes the acceptance of new suppliers onto the system and that only authorized suppliers can be used	The auditor should: • Inspect the list of suppliers to confirm it is approved and updated • Review a representative sample of suppliers on the approved list and inspect written evidence of their authorization for the suppliers • Analytically review the level of payments for, and utilization of, goods on a periodic basis and investigate any significant variations • Review a representative sample of invoices, credit notes and other documentation for evidence of matching to

delayed procurements that will impact on the quality of service provided to the customers and impacting adversely on the company reputation In addition, there will be a risk of non-segregation of duties in the procurement office with only one staff in the procurement office In the absence of adequate reviews before the finance director's approval of payments to suppliers, there is a risk of inaccurate, delayed or incorrect payments Payments made to suppliers in cash (rather than bank transfers or cheques) will expose the company to misuse or theft of cash by the company staff.	Authorization checks on invoices should ensure that only goods that have been received are paid for and that agreed prices are being paid Controls over the purchase ledger such as reconciliations with a purchase ledger control account and the matching of documents should be in place to ensure that discounts are obtained for timely payment and that good relations with suppliers are maintained There should be regular documented negotiations with the approved suppliers and discussions with alternative suppliers to ensure that value for money is obtained	appropriate goods received documentation and price lists • Review and critically assess the documentation and how regular negotiations and discussions with suppliers over price discounts are done
Marketing department		
The third-party advertiser may be in breach of advertising regulations which may cause a reputational risk rolling over to Uwera PZ and a loss of customers as a consequence The type of aggressive direct mail advertising may actually damage the reputation of Uwera PZ which might result in a loss of market share	In order to maintain a high reputation, a contract between Uwera PZ and the third-party advertising company should require that all advertising is in accordance with regulations for example there should be clauses in the advertising agreement requiring the advertiser to indemnify Uwera PZ against any costs arising from such breaches.	The auditor should: • Review the contract between Uwera PZ and the third-party advertising company, and the advertising materials to ensure that it is in accordance with the advertising regulations and any best practice guidance. • Inspect any legal advice received by Uwera PZ prior to signing off the advertising contract to ensure that appropriate legal guidance was

There is a risk of extensive marketing expenditure not resulting into new customers hence having a significant drain on the company's cash flows	The third-party advertising company should be required to submit all advertising material to Uwera PZ for approval, and Uwera PZ should have final control over the design and content of the advertising materials There should be proper budgeting for advertisement costs, and a regular review of such costs by comparison with new business obtained Cost controls should ensure that discounts offered are not so great as to make contracts unprofitable, after marketing costs have been take into account	taken in regard to indemnities and other important elements in the contract • Obtain documentary evidence to show that the advertising material has been approved at an appropriate level within Uwera PZ • Review budgets and management accounts to ensure that advertising costs have been controlled and are resulting in appropriate level of increased business at appropriate prices

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Part (d): Using a tabular format (*the student can choose to present each point addressing all the three requirements in this part)*

MANAGEMENT LETTER ON THE WAGES SYSTEM

Kalisa & Associates
Certified Public Accountants
Kigali – Rwanda
December 2021

The Board of Directors
Uwera PZ limited
Kigali – Rwanda
Members of the Board

Introduction:

We set out in this management letter deficiencies in the wages system which arose as a result of our review of the accounting systems and procedures operated by Uwera PZ Limited during our recent audit. The matters dealt with in this management letter came to our notice during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements.

Internal Control Deficiency	Implication of the internal control deficiency	Auditor's recommendation
Play Guides can use their electronic identification cards to log in and out without any monitoring controls over the process	Without appropriate monitoring controls, the Play Guides can be paid even where they have not worked because the time recording system logs them in and out when their cards are scanned, and they are paid based on the time of logging in and out	The Play Guide supervisor should reconcile the number of Play Guides with the computer records at the start and at the end of each working day with these reconciliations supporting the monthly payroll wage payments to the workers
Overtime work by the Play Guides is not authorized appropriately and monitored	Play Guides could be paid for overtime when they are not actually working resulting in extra un-supported expenses incurred by the company	All requests for Play Guides' overtime must be reviewed by the Play Guide supervisors and authorized by a relevant head of department. Overtime costs should also be monitored closely on a regular basis based on relevant factors

.		such as children promotional events, busy weekends, public holidays etc
The passcode used for the authorization to calculate the monthly net wages for the playing guides is generally known by all staff in the accounts department	Un-authorized individuals could log onto the system and enter extra hours so that they are paid more than they should be paid. Fictitious Play Guides could be set up on the wages system further increasing non supported costs to the company	The passcode should immediately be changed from a simple "first name" to a code with a mixture of random letters, numbers and special characters. The computer system should be set up so that the passcode has to be changed on a regular basis such as every 3 months
Processing of the monthly payroll for the Play Guides is mainly done by the payroll accountant (who is also responsible for other related activities reviewing hours logged in) this is not initially reviewed by another independent department (e.g. the human resource department) which does not allow for segregation of duties	In the absence of sufficient reviews due to lack of segregation of duties, there could be errors and/or fraud through collusion of the payroll accountant and the Play Guides resulting into additional wages paid for un-worked hours	Independent reviews by other relevant departments such as the Human Resources function and the Play Guide supervisors should be documented before the final monthly payroll is approved by the Finance Director
Setting up bank accounts for the Play Guides in the system is done by the payroll accountant without any independent review and authorization of the human resource department	Fictitious bank accounts could be set up with the intention of committing fraud resulting into a financial loss to the company	The Human Resources function should independently review and bank account details (including any changes) set up in the payroll system against the HR records and provide authorization of the bank account details used by the accounts department to pay the Play Guides
Payment of the wages into the Play Guide worker's bank accounts is made by one member of the accounts	Un-authorized payments into the Play Guides' and fictitious bank accounts could be made	The payroll and final pay to the Play Guides should be authorized by the Finance Director or another senior

department (the payroll accountant) without any authorization	resulting into a financial loss to the company	member of management prior to payments being made
Review of the wage's payment is done by the Finance Director every months most possibly on an ad hoc basis	There is no regular monitoring of wages by the senior management team of the company implying possible errors in the information reported within the management accounts to support decision making	The Finance Director should review payroll costs on a monthly basis so that they can assess whether they are reasonable, and any unusual amounts can be investigated

Conclusion:

This management letter has been produced for the sole use of Uwera PZ Limited. It must not be disclosed to a third party, or referred to, without our written consent. No responsibility is assumed by us to any other person.

We take this opportunity to thank the staff of Uwera PZ Limited for their cooperation and assistance during the course of our audit.

Kalisa & Associates

Note: Though the model answer is given as above, the student is only required to provide four (4) deficiencies, consequences and recommendations in the question

(e) **Substantive analytical procedures – in respect to the senior management salary system**

(vi) Perform a proof in total of the salaries charge for the year using the prior year charge and increasing it for the pay increase of 5% and taking account of any starters or leavers in the period.

Expectation: The figures should be comparable with the exception of the salary increase of 5% and any starters or leavers in the year

(vii) Perform a comparison of the annual charge to the prior year and to the budgeted figure. Where the variance is significant, investigate further to ascertain why

Expectation: The figures should be comparable with the exception of the salary increase of 5%

(viii) Review monthly salaries month by month taking into account any starters and leavers

Expectation: The figures should be about the same each month, except for June and December when the pay rise of 5% and the annual bonus of 10% were paid. Any starters or leavers would also be reflected in the relevant month

(ix) Recalculate the total amount for the salary increase in June and December and bonus in June to compare this to the expected increase of 5% and 10% respectively investigating any significant variances

Expectation: The salary increase in the months of June and December should match the 5% standard increase implemented in the two months and the annual bonus of 10% should be matched with the bonus paid on the payroll in June taking into account any starters or leavers

SECTION B

QUESTION TWO

Marking guide

Part (a): Audit risks

- **Long-term contracts:** inherently riskier than short-term contracts due uncertainty 1
- Financial performance of contracts whose outcome can reliably be established 1
- Subjective determination of the outcome into overstated contract revenue 1
- **Fixed fee contracts:** appropriately revised due to management's subjectivity in cost estimation 1
- IFRS 15 *Revenue from contracts with customers* expected losses arising from contracts 1
- Expected losses on the contracts are not fully recognized in the financial statements 1
- Revenue recognition and potential management manipulation 1
- Risk that due to the complex nature of the some of the contracts and the uncertainty 1
- A wrong estimation of the percentage of completion results in an under or over estimation 1
- The advance 40% receipt of the contract price may wrongly be recognised as revenue 1
- Overstated amount of revenue (or profits) and an understated amount of deferred income 1
- The final balance of 60% may not be recognized periodically as earned revenue 1
- Due to the non-recognition of earned income relating to the 60% balance on the contract 1
- **Potential bad debts or cancellation of the contract:** There is a high risk for bad and debts 1
- Understated expenses (or overstated profits) and overstated assets 1
- **Legal penalties – Defective work & health and safety for the workers** 1
- litigation risks from the workers or their representatives 1
- According to IAS 37 Provisions, contingent liabilities and assets, a provision for a liability 1
- Probable obligation to settle legal penalties for non-compliance of the construction 1
- **Detection risk – specialized nature of work:** Auditor may not have the necessary skills 1

- Work-in-progress will not be detected by the auditors during the audit 1
- **Going concern risk:** Does not have enough contract work then idle equipment 1
- IAS 1 Presentation of Financial statements adequate disclosure of the material uncertainties 1
- Disclosure of going concern uncertainty is "material by nature" 1

Note: *Additional relevant points can earn valid marks for example impairment losses for the JPC related assets (e.g., the construction machinery) due to the increased idle time in the use of the machinery arising from low business activities in the COVID-19 pandemic*

Maximum **10**

Part (b): Matters to consider before expression of an auditor's opinion on the consolidated financial statement of JPC Group

- **Significant Component and Materiality** JPC Kenya is a significant component JPC Group 1
- Right-of-use leased assets were not all expensed and the related assets 1
- Individually the fair value of the right-of-use assets "excluded" from the statement 1
- **Draft auditor's report for JPC Kenya-** meaning of the basis of opinion paragraph is unclear 1
- There is no reference to the non-compliance with the relevant IFRSs 1
- Some statements in the paragraph are 'vague" as these do not provide additional explanations 1
- The auditor does not expressly state whether or not they concur with the treatments 1
- Opinion paragraph is unqualified implies Owande agrees with the accounting treatment. 1
- The amount of disclosures relating to notes 3 and 4 appears to be insufficient 1
- No reference and no reason is made to the relevant IFRS standards from which JPC Kenya 1
- It will be practical to determine taxable temporary differences except in certain cases 1
- Basis of opinion paragraph (extract) gives a reason for non-compliance which is not included 1

Implications for the consolidated financial statements and the Group auditor's report (Akamwezi Associates CPA) thereon

- Auditor's report should be redrafted as unmodified 1
- Alternatively, an adjustment can be made on the consolidation of the JPC consolidated 1
- If no adjustment is made report should have a qualified "except for" opinion 1
- Akamwezi Associates CPA as the group auditor should not refer to the subsidiary's auditor 1

Note: *The marking for "materiality" and "significant component" should be strictly 1 mark for both the "calculation" and "correct conclusion" (the two elements MUST both be correct as we cannot award a 0.5 mark for one element only). The "calculation" can also be correct where the student:*

- *Shows the correct working even when the final calculated answer given is wrong; and*
- *Rounds off the final calculated answer in a reasonable manner*

Maximum **10**

Part (c): Marking Guide for “detecting fraud”

• ISA 240 states that it’s the primary responsibility of management and Board to detect fraud	1
• Auditor’s role in detecting fraud is through designing appropriate audit procedures	1
• Concealed fraud by the fraudsters by creating support paperwork	1
• Collusion between members of staff and / or management involving fraud	1
• Management overriding controls – for example where management may not comply Fraud	1
• Application of the audit sampling techniques may not test all fraud is involved	1
Maximum	**5**

Model answers

Part (a)

Long-term contracts

JPC is likely involved in a number of long-term contracts that will be inherently riskier than short-term contracts as there is greater uncertainty relating to the ultimate outcomes of the long-term contracts which results in determining the probability of their success completion being subject and prone to manipulation and errors in the financial statements

The financial statements should only recognize financial performance of contracts whose outcome can reliably be established at the reporting date

Subjective determination of the outcome of the long-term contracts may result into overstated contract revenue in the profit or loss and overstated contract asset (or understated contract liability) in the statement of financial position

Fixed fee contracts

JPC mainly operates with “fixed fee” contracts and the fixed fee can turn profitable contracts into loss-making contracts (e.g. due to escalating costs such as the cost of materials increasing due to low supplies of materials in the wake of the COVID pandemic) where estimated costs have not been appropriately revised due to management’s subjectivity in cost estimation

In accordance with IFRS 15 *Revenue from contracts with customers* expected losses arising from contracts should be recognized in full and immediately, even if the construction work has not yet commenced or is not yet completed

If the expected losses on the contracts are not fully recognized in the financial statements, there is a risk that the profit attributable to a contract in the profit or loss is overstated (or loss understated) and the contract asset is overstated

Revenue recognition and potential management manipulation

In accordance with IFRS 15 *Revenue from Contracts with customers*, in regard to a construction contract where performance obligations are satisfied over time, revenue is recognized when the performance obligations are satisfied based on the stage of completion. The stage of completion is computed on a percentage basis using either the input method or the output method

There is a risk that due to the complex nature of the some of the contracts and the uncertainty involved in the estimation of the contract costs for example the anticipation of the head office costs, the determination of the percentage of completion using the input method may result in an incorrect percentage of completion for the contracts that are material to the financial statements

A wrong estimation of the percentage of completion will result in an under or over estimation of the contract revenue (or profits) and contract assets (or contract liabilities) in the financial statements

In addition, the advance 40% receipt of the contract price may wrongly be recognized as revenue in the financial statements arising from early recognition of revenue before the construction is started due to pressure on management to report a stable financial performance of the company's results linked to the adverse implications of the COVID-19 impact on reduced revenues with the Rwanda local authorities as major customers cutting their spending budgets

This will result into an overstated amount of revenue (or profits) and an understated amount of deferred income within the liabilities of the financial statement for the received 40% advance from the customers

The final balance of 60% may not be recognized periodically as earned revenue during the progressive construction of the customers' buildings if JPC wrongly recognized this amount based on the percentage of completion at the reporting date especially considering that the part-time unqualified accountant may not be competent to apply the accounting principles of the relevant accounting treatment

Due to the non-recognition of earned income relating to the 60% balance on the contract revenue, there will be understated amount of revenue (or profits) and an understated contract asset in the financial statements

Potential bad debts or cancellation of the contract

There is a high risk for bad and doubtful debts if for example JPC completed the construction at the time where the customer may be unable to settle the balance of 60% contract price due to reduced funds suffered by the customers themselves due to the cashflow implications of the COVID-19 pandemic

In addition, there will be an impact on JPC's recovery of costs incurred on the constructed buildings if the customer cancelled the order during or after the construction process especially if costs recovery and/or termination penalty clauses are not included in the construction agreement

If JPC does not account sufficiently for the doubtful debts and/or unrecoverable costs, there will be understated expenses (or overstated profits) and overstated assets in the financial statements

Legal penalties – Defective work & health and safety for the workers

There is a risk of defective work if the construction does not comply to the quality standards set by the relevant authorities of the Rwandan Government for example if due to inexperience of the construction engineers, there are defects such as structural design faults, subsidence etc. These may expose JPC to litigation and penalties from the relevant authorities

In addition, if JPC does not maintained an adequate health and safety environment for the construction workers, there may face penalties from the relevant authorities and/or be exposed to litigation risks from the workers or their representatives, and this may be recognized or disclosed in the financial statements due to management bias to present financial statements with a sound financial performance and position

According to IAS 37 Provisions, contingent liabilities and assets, a provision for a liability should be recognized when there is a present obligation arising from a past event, with a high probability that the entity's economic resources will be required to settle the obligation and a reliable measure of the obligation can be estimated

If a probable obligation to settle legal penalties for non-compliance of the construction quality standards is not recognized, there will be understated expenses (or overstated profits) and understated liabilities in the financial statements

Detection risk – specialized nature of work

The nature of JPC's work is of such a specialized nature that if the auditor may not have the necessary specialist skills to evaluate the work-in-progress which is expected to be highly material at the reporting date. This is further exacerbated if the auditor does not engage a professional independent professional specialist such as a construction engineer

As a result, there is a high potential that any material misstatements arising on evaluation of the stage of completion for the work-in-progress (for example due to the auditor's failure to correctly assess independently the percentage of completion at the reporting date) will not be detected by the auditors during the audit of the financial statements

Going concern risk

The fact that there are fewer local government contracts to JPC due to cost cutting measures (arising from the COVID-19 pandemic) increases the risk that the going concern assumption applied in the preparation of the financial statements may not be appropriate. If JPC does not have enough contract work, then idle equipment may need to be disposed of and idle staff may need to be laid off resulting into a challenge to re-recruit the skilled employees when needed later

IAS 1 Presentation of Financial statements and the Conceptual Framework for financial reporting requires an adequate disclosure of the material uncertainties to going concern where significant indicators adversely impacting on the company's going concern are present

Though JPC does not have to prepare financial statements on a different basis from the going concern basis, failure to disclosure adequately the going concern uncertainty will result into a material misstatement due to inadequate disclosure as disclosure of going concern uncertainty is material by nature

Note: Additional relevant points can earn valid marks for example impairment losses for the JPC related assets (e.g., the construction machinery) due to the increased idle time in the use of the machinery arising from low business activities in the COVID-19 pandemic

Please note:

1. Other valid points other than those mentioned above can earn marks *(e.g. management subjectivity in allocation of estimated costs like depreciation of the machinery with the intention of overstating the contract costs to overstate the percentage of contract completion and report a high revenue or profits)*

Part (b)

Matters to consider before expression an auditor's opinion on the consolidated financial statement of JPC Group

Note: In broad terms the "matters to consider" will include:

- *Whether JPC Kenya is a significant component of the JPC Group and its Materiality.*
- *Meaning of the draft auditor's report and disclosure notes for JPC Kenya Limited on group auditor's opinion of JPC Group*
- *Implications of the JPC Consolidated financial statements and the auditor's report thereon*

Significant Component and Materiality

- JPC Kenya's profit before tax constitutes 30.6% of JPC Group's profit before tax and the JPC Kenya's total assets is 20% of the Group's total assets (in the prior year ended 30 June 2020: 30.9% and 22.1% respectively) and is therefore JPC Kenya is a significant component to the JPC Group as it contributes at least 15% of Group's results or the total assets.
- The above calculation for percentages to assess whether JPC Kenya is a significant component could be greater if payments in respect to right-of-use leased assets were not all expensed and the related assets were recognized in the statement of financial position of JPC Kenya
- Individually the fair value of the right-of-use assets "excluded" from the statement of financial position represents 12.3% of the total assets of JPC Kenya and is therefore material to the financial statements. Frw 1.2 trillion represents 2.5% of the total assets of the JPC Group and is therefore material also to the JPC consolidated financial statements

Draft auditor's report for JPC Kenya

- The meaning of the basis of opinion paragraph (extract) is unclear in the following aspects:
  - There is no reference to the non-compliance with the relevant IFRSs (e.g., IFRS 16 Leases and IAS 12 Income taxes)
  - Some statements in the paragraph are 'vague" as these do not provide additional explanations for example the statement 'This is not in accordance with the local tax regulations' does not give the specific requirements of the local tax regulations that have not been complied to by JPC Kenya regarding the treatment of the lease payments and the non-provision of the deferred taxation
  - The auditor (Owande CPA) does not expressly state whether or not they concur with the treatments
- That the opinion paragraph is unqualified implies that Owande CPA agrees with the accounting treatment. Since the matter is material (especially the right-to-use asset), Owande CPA should have qualified their audit opinion if they disagreed with the accounting treatment
- If Owande CPA auditors agree to the financial statements of JPC Kenya, then the references made in the auditor's report to notes 3 and 4 in JPC Kenya's financial statements relate to an "emphasis of matter". This should be presented separately after both the "opinion" and "basis of opinion" paragraphs in a paragraph headed "emphasis of matter" to make it very clear that the opinion paragraph is not qualified in this respect
- The number of disclosures relating to notes 3 and 4 appears to be insufficient because for example:
  - It is unclear whether none of the lease payments relates to lease agreements that qualify for exceptional simplified accounting such as short-term leases (leases of not more than 12-month period) and/or leases of low value assets. This could support the charging of the lease payments as the P&L as operating expenses if JPC Kenya opted for the simplified accounting and may have been correctly accounted for under IFRS 16 *Leases*
  - No reference and no reason is made to the relevant IFRS standards from which JPC Kenya has not complied to
  - It will be practical to determine (i.e., by calculating) taxable temporary differences except in certain cases (e.g., in respect of investments by JPC Kenya
- Although unclear, Owande CPA's basis of opinion paragraph (extract) gives a reason for non-compliance which is not included in the two notes 3 and 4. Therefore this cannot be included an "emphasis of matter" paragraph if it is "making good" a lack of disclosure in the financial statements of JPC Kenya
- Consistency or otherwise of the accounting treatment or disclosure of the right-of-use assets and the non-disclosure for deferred tax with the prior year (ending 30 June 2020) both in the financial statements of JPC Kenya and in Owande CPA's auditor's report thereon. If the same situation arose in the prior year, Owande CPA's current year auditor's report should draw attention to the fact that this was previously reported in their audit report on the financial statements of JPC Kenya for the prior year ended 30 June 2020

Implications for the consolidated financial statements and the Group auditor's report (Akamwezi Associates CPA) thereon

- Since JPC Kenya is a subsidiary, it is by definition controlled by the JPC Group and the management of JPC Kenya can be instructed by the parent company in Rwanda to adjust the subsidiary's financial statements (at least for consolidation purposes). In such a case, Owande CPA's auditor's report should be redrafted as unmodified and Akamwezi Associates CPA's auditor's report would similarly be unmodified in this respect
- Alternatively, an adjustment can be made on the consolidation of the JPC consolidated financial statements. Akamwezi Associates CPA's auditor's report would then be unmodified
- If no adjustment is made in either JPC Kenya (the subsidiary) or the consolidated financial statements, Akamwezi Associates CPA's auditor's report should have a qualified "except for" opinion for the non-compliance to IAS 12 *Income taxes* and IFRS 16 *Leases*. Explanation for the qualification and the effects of the non-compliance with IAS 12 should be quantified should be included in the "basis for the qualified opinion" paragraph
- Akamwezi Associates CPA as the group auditor should not refer to the subsidiary's auditor (Owande CPA) in the group auditor's report of the consolidated financial statements as this may mislead the users of the group auditor's report that this was a "joint audit" or that the group auditor's report is modified in that respect

Part (c)

Answer for "detecting fraud"

- Overview of responsibility roles for detecting fraud (by management and auditor)
  - ISA 240 states that it's the primary responsibility of management and Board of Directors to detect fraud in the company and this is continuously done through providing or putting in place a sound internal control system with a monitoring function that can detect and address fraud in the company
  - However, the auditor's role in detecting fraud is through designing appropriate audit procedures that will be able to detect the nature and extent of fraud creating a material misstatement on the financial statements being audited

The following are difficulties faced by the external auditors in detecting fraud:

- Concealed fraud by the fraudsters which arises where the person(s) involved in fraud will deliberately hide the fraud from auditors through (say) falsifying the accounting records (for example forgery of the authorization signatures and other details on the stores dispatch for small portable equipment that are stolen from the company stores by creating support paperwork)
- Collusion between members of staff and / or management involving fraud. This happens where those involved in fraud collude to keep such information from the auditors and hence the auditors may not easily detect the fraud

- Management overriding controls – for example where management may not comply to the internal control procedures and systems. An example can be in the case of (say) authorization or non-compliance to segregation of duties (e.g a management member making a non-authorized direct order for private goods without following the procurement system and the goods get paid for by the company)
- Fraud involving small and Immaterial quantities and/or small monetary amounts which may not easily be detected by auditors due to their small values and they fall below the materiality amount set by the auditors. Specifically, the auditors in the design and conduct of the audit will usually be interested in items that are material to the financial statements
- The approach of auditor in the conduct of the audit which may impact negatively on the auditor's ability to detect fraud – e.g., the application of the audit sampling techniques in which case the auditor may not test all transactions or documents including that where fraud is involved.

QUESTION THREE

Marking guide

Part (a): Detection of Fraud

- **Responsibilities for detecting fraud:** Detecting fraud is the primary responsibility of management and the company directors, not the auditor. 1
- Auditor is required to give reasonable assurance that statements are not materially misstated 1
- The audit process is however subject to inherent limitations 3
- **Materiality and its impact on the auditor's opinion:** The total value of medical drugs stolen from Rutongo Pharmaceuticals Ltd of Frw 112.5 million is 5.6% of the total assets which is material to the financial statements of Rutongo Pharmaceuticals Ltd 1
- Incorrect auditor's opinion was expressed in the last audit of the financial statements 1
- **Conduct of the audit:** Professional skepticism is an important approach applied by the auditors in order to detect material misstatements resulting from fraud. 1
- The audit of Rutongo Pharmaceuticals Ltd does not seem to have been conducted with an attitude of professional skepticism. 1
- Detecting fraud, sufficient appropriate audit evidence does not in any case seem to have been obtained 1
- ISAs require the auditor to design and perform tests of controls in each and every period 1
- **Evaluation of the auditor's negligence of duty:** A duty of care existed as there is a contract 1
- The duty of care was breached by the auditor due to the auditor's negligence 1
- A financial loss was suffered as a result of the auditor's negligence 1
- The financial loss in this case would be the value of the theft 1

Maximum 15

Part (b): ISA 720 guidance – implication on the completion of the audit

- “other information” is defined as financial and non-financial information which is 1
- KPIs included in integrated report of GGM Ltd are by definition “other information” 1
- Auditor is to read the other information so as to identify any material inconsistencies 1
- Profits before tax have increased by 25% but the audited financial show a drop by 10% 1
- Auditor’s application of professional judgment is considered a material inconsistence 1
- Further actions to be taken by the auditor consider whether the financial statements or the other information needs to be amended by the management 1
- Determine whether the profit before tax figure needs to be amended 1
- KPI should be changed to be in agreement with the movement in the profit before tax figures 1
- Communicating the material inconsistence to those charged with governance 1
- Seeking legal advice regarding the auditor’s role in ensuring GGM’s compliance 1
- If management refuses to revise the KPI, and the material misstatement of the KPI remains, auditor should “other information” paragraph of the auditor’s report 1
- “other information” paragraph should be placed after both the “opinion” and the “basis of opinion” 1

Maximum 10

Model answers

Part (a)

Matters to consider include:

Responsibilities for detecting fraud

Detecting fraud is the primary responsibility of management and the company directors, not the auditor. However, the auditor is required to give reasonable assurance that the financial statements are not materially misstated as a result of fraud and error. In addition, ISA 240 *The auditor’s responsibilities regarding fraud in an audit of financial statements* requires the auditor to identify and assess the risks of material misstatements due to fraud. This means that an audit conducted in line with International Standards on Auditing (ISAs) should obtain evidence specifically relating to fraud

The audit process is however subject to inherent limitations which particularly relate to the audit detecting fraud. The persons involved in fraud may conceal the fraud which will make it difficult for particularly the auditor to detect the fraud. In addition, there may be conclusion by management which further complicates the auditor’s responsibility to detect fraud through inquires made of management. It is therefore possible for the auditor to conduct the audit in accordance with the ISAs but still fail to detect a material misstatement arising from fraud

Materiality and its impact on the auditor's opinion

The total value of medical drugs stolen from Rutongo Pharmaceuticals Ltd of Frw 112.5 million is 5.6% of the total assets which is material to the financial statements of Rutongo Pharmaceuticals Ltd

Consequently, it appears that an incorrect auditor's opinion was expressed in the last audit of the financial statements of Rutongo Pharmaceuticals Ltd as the identification of the fraud should have resulted in a qualified opinion

Conduct of the audit

Professional skepticism is an important approach applied by the auditors in order to detect material misstatements resulting from fraud

The audit of Rutongo Pharmaceuticals Ltd does not seem to have been conducted with an attitude of professional skepticism, probably because this is considered to be a long-standing audit client *(alternatively: due to over reliance on the results of the recent tests of controls conducted in the prior years)*

However, irrespective of the auditor's specific responsibilities relating to detecting fraud, sufficient appropriate audit evidence does not in any case seem to have been obtained in relation to the drug inventory movement during the period audited. ISAs require the auditor to design and perform tests of controls in each and every period being audited

Therefore, substantive evidence should have been obtained in relation to stock movements involving the client's medical drugs as this account balance is considered to be material to the financial statements

On this basis it is apparent that the audit was not conducted in accordance with the ISAs and hence the audit engagement partner may find it very difficult to defend the conduct of the audit performed by Kamanzi & Kwizera Associates in the last year over the financial statements of Rutongo Pharmaceuticals Ltd

Evaluation of the auditor's negligence of duty

Three things must be proved for the auditor to be found to have been negligent including:

(i) **A duty of care existed.** As there is a contract between Kamanzi & Kwizera Associates and Rutongo Pharmaceuticals Ltd, a duty of care can be proved to have existed (in this case to the "Shareholders of Rutongo Pharmaceuticals Ltd")

(ii) **The duty of care was breached by the auditor due to the auditor's negligence.** The conduct of the audit did not follow the ISAs particularly regarding the movement of medical drugs which is considered to be material to the financial statements of Rutongo Pharmaceuticals Ltd

(iii) **A financial loss was suffered as a result of the auditor's negligence.** The financial loss in this case would be the value of the theft, although it is not clear whether the auditor could be held responsible for the full amount of the stolen medical drugs

In conclusion, it is likely that Kamanzi & Kwizera Associates as the auditors were negligent in the conduct of the audit of the financial statements of Rutongo Pharmaceuticals Ltd for the year ended 31 December 2020 and Rutongo Pharmaceuticals Ltd would be able to prove this is court

Part (b): ISA 720 guidance – implication on the completion of the audit

In accordance with ISA 720 ISA 720 The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements, "other information" is defined as financial and non-financial information which is included in the company's annual report

From the information provided in the scenario, the Key Performance Indicators (KPIs) included in the integrated report of GGM Ltd are by definition "other information"

According to ISA 720, one of the responsibilities of the auditor is to read the other information so as to identify any material inconsistencies with both the audited financial statements and with the auditor's understanding of the entity

In the information provided relating to integrated report of GGM Ltd, there appears to be an inconsistence because the KPIs states that the profits before tax have increased in the year under audit by 25% compared to the previous year but the audited financial statements show a drop in the profit before tax of 10% (***1 mark for identification of the inconsistence)***. This in the auditor's application of professional judgment is considered a material inconsistence

Further actions to be taken by the auditor

Since the inconsistence is considered to be material in the auditor's professional judgment, the auditor needs to consider whether the financial statements or the other information needs to be amended by the management of GGM Ltd

In relation to the financial statements, the audit should design audit completion procedures including the final analytical review and a review of all the auditor's working papers which should determine whether the profit before tax figure as stated in the financial statements needs to be amended

Regarding the draft KPIs, it is most likely that the KPI included in GGM's integrated report should be changed to be in agreement with the movement in the profit before tax figures shown in the adjusted financial statements with the auditor requiring management to make the necessary revision to the KPI within the integrated report

If management of GGM Ltd do not amend the KPIs then the auditor will consider further actions below (prior to issuing the final auditor's report):

- Communicating the material inconsistence to those charged with governance (i.e the Board of Directors) and/or the audit committee of GGM Ltd indicating the justification to amend the KPIs and the impact the non-amendment will have on the audit report

- Seeking legal advice regarding the auditor's role in ensuring GGM's compliance to providing an accurate KPI considering that an integrated report is a new legal requirement for GGM Ltd from its regulators

Impact on the auditor's report

If management refuses to revise the KPI, and the material misstatement of the KPI remains, the auditor should describe the material misstatement of the other information in the "other information" paragraph of the auditor's report

The "other information" paragraph should be placed after both the "opinion" and the "basis of opinion" paragraphs and will explicitly mention that it does not result in a qualification of the auditor's opinion

QUESTION FOUR

Marking guide	**Marks**

Part (a): Evaluation of Internal audit

Award up to 2 marks for each matter considered to be relevant as a basis for an evaluation of the internal audit function that your audit firm would need to undertake including (but not limited to):

(i) Organizational status of the internal audit function	2
(ii) Scope of the internal audit function	2
(iii) Technical competence	2
(iv) Level of resources employed in the internal audit function	2
(v)Application due professional care by the internal auditors	2

Note: Other relevant points that are well evaluated and are valid will earn marks for example "the relevance of the internal audit work to the external auditor's work"

Maximum	**10**

Part (b): Explanation of the extent to which your audit firm could place reliance on the work of the internal audit in specific areas identified below

For each of the five key areas following under the requirements of the question, a total of 3 marks are to be awarded as broken down below:

- Up to 1 mark for an evaluation of the adequacy of the internal audit function explaining the extent to which your audit firm could place reliance on the work of the internal audit
- Up to 2 marks for ALL the specific procedures and/or any other considerations applicable that are fully discussed in each of the five key areas (with each procedure and/or consideration granted up to 1 mark if well developed).

- The five key areas that fall under the discussion include:

i) Accounting and internal control systems
ii) Tests of controls
iii) Assessment of inherent and control risks
iv) Application of CAATs
v) Substantive procedures

Maximum **10**

Model answers

Part (a): Evaluation of Internal audit

The external auditor must first carry out a preliminary assessment of the internal audit function with ISA 610 *Considering the Work of Internal Auditing* recommending a review of the following areas:

Organizational status of the internal audit function

The external auditor needs to review the operation and positioning of the organizational status of the internal audit department within the client's structure both in theory and in practice.

Our audit firm will need to be satisfied that Sibomana's internal audit department is reasonably independent of management whose work is being assessed and the internal audit department is free from operational responsibility. In practice this requires that the internal audit reports to the highest level of management, preferably the audit committee and it is free to communicate fully to the external auditors.

The department should also have a reasonable degree of freedom in determining the scope of its work

Scope of the internal audit function

As the external auditors, our firm would need to be satisfied that the findings of the internal audit carry an appropriate degree of weight by selecting a sample of some recent internal audit reports and confirming that the recommendations made in the report were discussed at the highest level of management and the Board of Directors (e.g. the audit committee includes as part of its agenda the discussion and review of implementation of the internal auditor's recommendations).

Further as external auditors, we need to confirm through a review of a sample of implemented recommendations that the internal auditor's recommendations are fully acted upon by the management of Sibomana Ltd

Technical competence

As external auditors, we need to be satisfied that Sibomana's internal audit department is staffed appropriately by personnel who are trained and qualified and in addition the head and senior member of the internal audit department should be experienced in the business sector in which Sibomana operates from.

Our audit firm will need to review the human resource personnel files of the existing internal audit staff for evidence of their qualifications and experience.

In addition, our audit firm will need to see evidence of Sibomana company policy with regard to the employment, training and promotion of the staff in the internal audit department.

Level of resources employed in the internal audit function

Our audit firm will need to consider the level of internal audit resources relative to the extent of work we would be relying on including the funding budgets and its implementation for the operations of the internal audit.

Our audit firm will particularly will need to obtain firm assurance that the internal audit has sufficient resources available to the department perform the necessary procedures on which our reliance will be placed upon – for example the internal audit team has been adequately resourced and have visited the branched with the 15 stores based upcountry to perform tests on internal controls and other relevant tests in addition to the main store in Kigali.

Application due professional care by the internal auditors

As the external auditors, we will need to confirm that the internal audit operates with approved internal audit plans and apply quality controls in its work for example conduct risk assessments to determine the scope and approach of the internal audit tests and document adequately their findings with systematic reviews done before the internal audit reports are issued.

We will need to examine the internal audit manuals, work programs and working papers to ensure that the work performed meets appropriate standards of planning, review and documentation

Note: Other relevant points that are valid will earn marks for example "the relevance of the internal audit work to the external auditor's work"

Part (b)

Introduction

Where the external auditor intends to use the specific work of internal auditing, ISA 610 requires the external auditor to evaluate and test that work to confirm its adequacy for the external auditor's purpose. A detail of the procedures and other considerations applicable to five key areas are fully discussed in the section below.

(i) Accounting and internal control systems

If we are to place reliance on the documentation prepared by the internal audit department of Sibomana regarding the accounting and internal control systems, we as external auditors will need to:

- Review procedures followed in obtaining the understanding and in documenting the results to ensure these are sufficient thorough, such as through confirmation by performing "walk-through tests"
- Take a sample of such documentation, consider the adequacy of the level of detail recorded and perform a walk-through test in order to satisfy ourselves as to its accuracy and relevancy for our purposes
- Confirm that the documentation is reasonably current and that there is evidence that Sibomana's internal audit staff members undertaking the documentation were properly supervised and that the work has been properly reviewed

(ii) Tests of controls

Our audit firm will probably be able to rely on tests of controls performed by the internal audit staff at the branches where the stores on inventories are based

In relying on the results of these tests conducted by the internal auditors of Sibomana Ltd, as external auditors we would need to:

- Be satisfied as to the timing and the extent of the tests conducted
- Inspect documentation for evidence that the tests were properly planned, performed, documented and reviewed
- Ensure that the conclusions reported by the internal auditors were consistent with the results of the tests
- Compare the evidence obtained with the results of similar tests performed by our audit firm at Sibomana's head office and at the main store

(iii) Assessment of inherent and control risks

In terms of inherent risk, it is unlikely that as external auditors we will fully rely on the assessment of inherent risks performed by the client's internal audit department due to the inherent limitations that come with the fact that these are staff members of Sibomana Ltd

We need to conduct our own inherent risk assessments that we can rely on to determine and evaluate the potential risks of material misstatements in the financial statements

In terms of the control risks, again as external auditors we cannot rely on the assessments made by the client's internal audit department as assessment of the control risk is very critical to the development of an appropriate audit strategy

However, in forming our assessment of the control risk of Sibomana Ltd, we will consider the role of the internal audit and the results of tests of controls conducted and documented by the internal audit department of Sibomana

(iv) Application of CAATs

The use of embedded audit facilities within the auditor's program is considered to be much more efficient than using test data for instance embedded facilities such as an integrated audit test facility will test live data of the client as it is processed by the system

Though the external auditors may be consulted, such facilities can usually be installed for use by the internal audit who will be able to use these facilities as an ongoing activity throughout the financial year rather than being conveniently applied during the limited period of the external audit attendance at the client's premises

Furthermore, the internal auditors at Sibomana Ltd may have more expertise in operating the particular facilities available that our own computer audit specialists

Based on the reasons explained above, it will make sense to accept the cooperation of the client's internal audit in performing the CAATs

However, as external auditors we would need to:

- Perform tests to ensure that the facilities are properly installed and operating
- Evaluate general controls over computer operations to ensure that the audit facilities are secure and can only be assessed by the internal audit staff
- Be involved in the design of the tests to be performed
- Review by working papers to ensure that the tests are properly conducted, supervised, documented and reviewed and that the conclusions are consistent with the evidence

(v)Substantive procedures

It will be reasonable to place reliance on routine substantive procedures performed by the internal audit at the branch stores such as surprise cash counts, attendance at periodic inventory counts, year-end cash and inventory counts including follow up procedures like cut-off tests and checking count sheets to final inventory listing

Though we can rely on the internal auditor's substantive tests done, as external auditors, we will need to perform similar procedures at the main store and at least one other store picked from the sample of the 15 stores upcountry so that we can compare our experience with the evidence obtained by the client's internal audit team. The locations or branches that our audit firm and the internal audit should visit has to be rotated annually

As external auditors we need to review the nature and results of the substantive tests performed by the client's internal audit staff

If the work of the client's internal auditors reveals material misstatements or unusual matters that impact on the financial statements of Sibomana Ltd, we as external auditors will need to perform additional audit procedures to confirm the extent of the misstatements in Sibomana's financial statements and evaluate the impact on the audit report and opinion

END OF MARKING GUIDE AND MODEL ANSWERS