



**CERTIFIED PUBLIC ACCOUNTANT ADVANCED
LEVEL 1 EXAMINATIONS**

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

DATE: FRIDAY 29, AUGUST 2025

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 a manager in Kwizera & Partners, a firm of professional accountants based in Rwanda. In May 2025, Star Trust Bank (STB), a local commercial bank in Rwanda with investments in other companies contacted your firm with a request to carry out an external audit for the financial statements of STB (the parent entity of the Group) and the Group financial statements for the year ending 30th June 2025.

In order to help with the firm's decision regarding the request from STB, you met with the Managing Director of STB and you noted the following information regarding STB and its investments:

STB's business background

Star Trust Bank (STB) is a Rwandan commercial bank headquartered in Kigali, with branches across major districts. It has operated for 30 years and is closely regulated by the Government through annual inspections by the central bank. Its operating license is renewed every five years based on compliance. In October 2024, a competitor bank was temporarily shut down and fined FRW 2,000 million due to significant non-compliance, resuming operations in August 2025 after paying the penalty.

STB is facing significantly growing competition as a result of new commercial banks joining the Rwandan banking industry, like Front International Bank (FIB) which started its operations in July 2024. Since FIB started operations, STB has lost a significant market share to FIB. In the year ended 30th June 2024, STB had a market share of 60% in Rwanda which has dropped to 45% in the recent market assessment report conducted by an independent team dated March 2025.

Due to the loss of a significant market share to FIB, the directors of STB negotiated for and acquired a new brand name "Lions Finance" on a twenty (20) year license from a large reputable financial institution located in Germany. The following terms were agreed upon in the license contract that was signed on 1st April 2025:

- STB paid an initial fixed sum of FRW 800 million on 1st April 2025 to the Germany company (the "Licensor") which permitted STB to start operating under the "Lions Finance" trade name from that date;
- STB will pay an annual commission of 15% based on STB's annual gross revenue earned from income earned from the "Lions Finance" trade name and this commission is to be paid to the "Licensor" throughout the license period of 20 years.

Immediately from the first month of re-branding, the new "Lions Finance" brand has helped STB to access new corporate customers and in addition, there is a high retention rate of the existing customers who are happy to be associated with the new brand.

STB's expansion plan

The Board of STB recently approved a ten-years expansion plan in which STB will open bank branches in other countries and acquire investments in other companies including investments in insurance companies.

STB has begun implementing its Board-approved expansion plan by opening two major branches in Nairobi, Kenya, and Kampala, Uganda. Unlike Rwanda, both countries have stricter banking regulations, including a requirement for annual customer care training for employees. These mandatory trainings aim to improve service delivery and enhance STB's profile in the new markets.

In the current year, a training fee of FRW 500 million (combined fees for both Kenya and Uganda) is expected to remain unsettled by the reporting date as at 30th June 2025 with a potential interest of 30% on the unpaid bills expected to be charged from the training institutions.

Due to the financial challenges arising from the loss of market share suffered by STB, the Board of STB has approved a request to the Government of Rwanda for a tax waiver on the initial profits earned in the two main branches of STB operating in Kenya and Uganda. The Government of Rwanda has indicated that such a request for a tax waiver will only be granted after receiving STB's audited financial statements for the year ended 30th June 2025. Therefore, the management of STB wants the audit report to be received not later than 31st July 2025 as the deadline for the Government tax waiver is 31st August 2025.

As part of the expansion plan, on 1st April 2024, STB acquired 100% shareholding in Be-safe Insurance Company (BIC), at an investment cost of FRW 16,000 million payable on 1st April 2026 (an interest rate of 10% per annum was accepted for the deferred consideration). BIC is a fast-growing Insurance company operating only in Rwanda. In order for BIC to operate as an insurance company, the Government of Rwanda renewed a 5-year license to BIC on 1st April 2024 at a cost of FRW 1,200 million. The license can only be renewed if certain specific conditions are satisfied by BIC. The license has not been amortised by BIC on grounds that BIC is confident that the license will be renewed indefinitely after the expiry of the current 5 years license period.

Though STB and BIC operate in different industries, the two entities apply the same IFRS accounting policies where applicable and both prepare their financial statements to 30th June 2025. Both companies achieved a stock listing on the Rwanda Stock Exchange market at the start of the financial year. However, due to its size, BIC has not previously been required to have a statutory audit of its financial statements. If approved as the external auditors of the STB Group, Kwizera & Partners will also be required to provide the audit of the financial statements of BIC for the year ended 30th June 2025.

In addition, STB holds an investment of an 18% shareholding in Telex Ltd, a company that hosts STB's online banking system. The cost of this investment was FRW 2,500 million and it was recognised in the financial statements of STB as a financial asset at its cost. In the recent past, STB has registered a significant increase in the bank account holders using the online

banking facility to run their bank account transactions. Initially, STB held 10% shareholding in Telex Ltd in the past. STB's investment in Telex Ltd has recently increased from 10% to 18% since 1st January 2025 as a strategic acquisition after rumours that Telex Ltd was about to be taken over by a new competitor of STB.

On 1st March 2025, STB provided a guarantee to Telex Ltd's borrowed 5-years bank loan of FRW 15,000 million which was borrowed on the same day by Telex Ltd. The loan was used by Telex Ltd to finance the purchase and installation of a new online hosting portal that hosts online banking platforms of many commercial banks operating online banking in Rwanda. The latest financial statements of Telex Ltd reported net assets of FRW 57,000 million.

To protect STB's investment in Telex Ltd and also to ensure that its investment in the new online hosting portal is compatible with STB's strategy and operations, STB has recommended the temporary appointment of its Director for Strategy, Paul Niyonagize to work at Telex for six months period to oversee the success of the new installation of the online hosting portal.

Extracts of the Financial Performance of STB Group

	Projected	Actual (audited)
	10 months to April 2025	12 months to June 2024
Revenue sources:		
Ordinary customers (ordinary bank and insurance account holders)	64%	70%
Creditors (loan/credit holders)	14%	25%
Other non-routine product customers	21%	5%
Number of customers	2 million	2.2 million
Percentage of customers opening additional accounts	71%	78%
Operating profit margin	10.5%	11.4%
Total assets	FRW 80,000 million	FRW 75,000 million

Resignation of the previous auditors and liquidity challenges faced by STB

In July 2024, the previous auditors of STB formally resigned from their role as auditors to the company on the basis that STB had outgrown the capacity of the auditor. This was specifically based on STB's investment in BIC, a large insurance company whose financial statements and consolidated financial statements had to be audited by the same audit firm. The former auditor is a small-sized local firm of professional accountants that operates with one office based in Rwanda.

The auditor's report on the STB's individual financial statements for the prior year ended 30th June 2024 was unmodified.

STB is facing cash flow challenges and has several unpaid liabilities, including an outstanding audit fee and a long-overdue lease rental of FRW 1,800 million. The lessor has taken legal action to recover the debt and a penalty. STB's legal advisor believes the company is likely to lose the case, and based on past similar cases, the court may impose a high penalty.

The STB Board is requesting Kwizera & Partners to offer the audit of both the individual entity and consolidated financial statements at a reduced/low audit fee considering the financial challenges faced by the company.

Request for provision of other services (non-audit services)

The Managing Director of STB has shared with you the recent internal audit report for STB where the internal auditor reported significant gaps in the internal controls over the payroll system of STB. The payroll system is integrated with the accounting system where the information in the payroll system is automatically posted to the accounting software. Specifically, the internal auditor of STB reported:

- Significant deficiencies in the computation of the PAYE (tax) deductions that resulted in significant amounts of under-deductions of taxes from the staff salaries; and
- The master payroll system retained details of former STB employees who had left the company. Fortunately, these former employees were not being paid.

The STB Board has approved a new payroll system, and the Audit Committee is asking Kwizera & Partners to assist with its implementation. If accepted, Kwizera & Partners would support the system's development and work with the contracted payroll expert, while also continuing to provide external audit services to STB.

The STB Audit Committee also suggests that if the STB payroll is improved, then there will be an improved audit efficiency that should result in a reduced audit fee to STB in the future external audits.

Required:

- a) Discuss any SEVEN matters that Kwizera & Partners should consider prior to accepting the engagement to audit the individual financial statements of Star Trust Bank (STB) and the STB consolidated financial statements. (7 Marks)**

Note: Do NOT include any considerations related to the requested non-audit assignment regarding the assistance on the implementation of the new payroll system.

- b) If the engagement to provide audit services to STB and the Group is accepted, evaluate:**
- i) The business risks faced by STB and the Group (8 Marks)**
 - ii) The significant risks of material misstatements to be considered in the planning of the audit of STB and the Group financial statements. (15 Marks)**

Note: In part (b), ignore the application of analytical procedures and any assessment of opening balances.

- c) Discuss the main analytical review procedures that will form part of the audit work on the incomes and expenses that are reported as part of the draft STB Group financial performance. (4 Marks)**
- d) Describe any FOUR principal audit procedures to be carried out on the opening balances of the individual financial statements of STB for the year ended 30th June 2025. (4 Marks)**

- e) In regard to the request by the STB Audit Committee for the firm to assist in the implementation of the new payroll system for STB, **discuss the ethical threats that will be faced by Kwizera & Partners and recommend appropriate safeguards to address the threats.** (6 Marks)

f) Star Trust Bank (STB) is nearing approval to acquire 100% of Exodus Bank, based in Cyprus, with the acquisition planned for the financial year ending 30th June 2025. Exodus Bank will be a significant part of the STB Group but will continue to be audited by its current local auditors, Pickman & Co, who operate under Cypriot audit regulations that do not follow International Standards on Auditing (ISAs).

Required:

As the Group auditor and in preparation of the audit of the consolidated financial statements of STB Group for the next financial year ending 30th June 2026, **discuss the factors that should be considered, and the procedures that should be performed, in deciding the extent of reliance to be placed on the work of Pickman & Co as a component auditor.** (6 Marks)

(Total: 50 Marks)

SECTION B

QUESTION TWO

You are an audit manager in Mugabo and Co, a firm of certified professional accountants based in Rwanda. You are responsible for the audit of Spice Ltd, a limited liability company, operating in Rwanda as a chain of national restaurants providing catering services to corporate and individual customers. All restaurants of Spice Ltd offer 'eat-in', 'take-away' and 'home delivery' services. The draft financial statements of Spice Ltd for the year ended 30th June 2025 show revenue of FRW 7,800 million (2024 – FRW 7,650 million), profit before taxation of FRW 5,800 million (2024 – FRW 5,200 million) and total assets of FRW 30,700 million (2024 – FRW 23,400 million).

The following issues arising during the final audit have been noted on a schedule of points for your attention:

Owned Properties

Spice Ltd owns twenty (20) properties (land and buildings) across the country from which it operates. Historically, all owned properties have been measured at cost and depreciated over 10 to 50 years. The Board of Spice Ltd has decided to revalue these properties for the first time for the year ended 30th June 2025 and the revaluations were conducted as below:

- Two (2) properties were revalued on 30th June 2025 (the reporting date) with a revaluation surplus of FRW 1,700 million which has been credited to the revaluation reserve account in equity in the year ended 30th June 2025;
- Another fifteen (15) properties were revalued on 15th July 2025 (before the financial statements were approved) with a revaluation surplus of FRW 5,400 million which Spice Ltd plans to credit to the revaluation reserve account in equity in the next year ending 30th June 2026; and
- The remaining three (3) properties will be revalued later in the next financial year ending 30th June 2026.

Trade receivable balance

Spice Ltd's statement of financial position as at 30th June 2025 shows a receivable classified as a current asset with a value of FRW 25 million. The only audit evidence available requested by the auditor and obtained from Spice Ltd is a management representation stating that the amount is owed to Spice Ltd from Trundy Co. Trundy Co is controlled by Spice Ltd's chairman, Fred Mutabazi, and that the balance is likely to be received six months after Spice Ltd's year end.

The same receivable balance was also outstanding and reported in the current assets at the last year end (30th June 2024) when a similar management representation was requested by the

auditor and was provided by the client. The auditor's working papers last year noted that because the receivable balance amount was immaterial, no further audit work was conducted on the receivable.

No disclosure has been made in the financial statements regarding the receivable balance. Trundy Co is not audited by our firm and we have verified from a review of the relevant organizational documents that Spice Ltd does not own any shares in Trundy Co.'

Required:

- a) For each of the above issues, **comment on the matters that you should consider, and explain the audit evidence that you should expect to find, in undertaking your review of the audit working papers and financial statements of Spice Ltd for the year ended 30th June 2025.** (16 Marks)

Ignore the impact of the above matters on the auditor's report

- b) The above issues have now been well resolved and the engagement partner is set to sign off the auditor's report in 2 days. The audit senior has drafted the auditor's report on the financial statements of Spice Ltd for the year ended 30 June 2025. Below are extracts of the draft auditor's report for your review before the report is shared with the engagement partner:

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as of 30th June 2025 and the results of its operations and its cash flows for the year then ended in accordance with ...'

Basis of audit opinion (extract)

As set out in notes 7 and 8, the leased properties have not been recognized in the statement of financial position but the related expenditure is included in operating expenses and no provision has been made for deferred taxation in accordance with local tax regulations.

You have received the related disclosure notes compiled by Spice Ltd as they will be presented in the financial statements for the year ended 30th June 2025 and they read as follows:

Note 7: Leased assets

During the year, the company has incurred expenditure on leasing agreements that give rights approximating to ownership of fixed assets. These properties were leased at the start of this year and the present value of the future lease payments was assessed at FRW 7,900 million on the inception of the lease. All lease payments are charged to the profit or loss as incurred.

Note 8: Taxation

This includes current taxes on profit and other taxes such as taxes on capital expenditure. No provision is required to be made for deferred taxation and it is impracticable to quantify the financial effect of unrecognised deferred tax liabilities.

Required:

Comment on the matters to consider in your critical review of the proposed draft auditor's opinion on the financial statements of Spice Ltd.

(9 Marks)

(Total: 25 Marks)

You are NOT expected to redraft the auditor's report

QUESTION THREE

You are a manager in Manzi & Co, a firm of Certified Public Accountants operating in Rwanda. Your department is responsible for conducting client screening procedures for both potentially new clients and existing clients, in addition to other specialized assignments. Your firm has recently been approached by a potential new audit client, Kigali Furniture Co (KFC). Your firm is keen to take on the appointment and currently you are carrying out client acceptance procedures on KFC prior to accepting the engagement. KFC was recently incorporated by Boaz Munezero, with its main trade being the retailing of wooden storage boxes.

Required:

a) **Discuss the procedures specific to money laundering that should be considered before, and on the acceptance of the audit appointment of Kigali Furniture Co.** (5 Marks)

b) Pius Ishimwe is a recently employed staff working in your department and is one of the team members conducting the client screening exercise on Kigali Furniture Co (KFC). Pius has only graduated from the university six (6) months ago and has just enrolled as a CPA student with ICPAR. During the client screening exercise, Pius received for review, the latest internal audit report of KFC where the internal auditor of KFC discovered several discrepancies in the inventory records during the year. An extract of the report quotes the internal auditor of KFC stating:

“I think that someone is taking items from the store. A physical inventory count is performed every three months, and it has become apparent that about 200 boxes of chairs and tables are disappearing from the store every month. We should get someone to investigate what has happened and quantify the value of the loss.”

Pius is concerned about the meaning and impact of the statement in the KFC internal auditor's report as he believes this implies that fraud must be taking place at KFC's stores. He is aware that your department provides forensic accountancy services to clients facing similar fraud as that potentially taking place at KFC. He therefore seeks for your guidance on the relevancy of forensic accounting to the potential fraud taking place at KFC's store and whether your firm

can provide a forensic accountancy service to KFC to investigate the potential fraud taking place in the store.

Required:

In order to guide Pius' additional knowledge, **define 'forensic accounting' and discuss its relevance to the statement made in the KFC internal auditor's report.** (7 Marks)

c) You have recently attended a Continuous Professional Development (CPD) session organised by ICPAR in which one of the key presenters covering the topic "Essentials of a Good Corporate Governance system" made the following remark:

"The objective of a system of corporate governance is to secure the effective, sound and efficient operations of companies. This objective transcends any legislation or voluntary code. Good corporate governance embraces not only making the company prosper but also doing business in a legal and ethical manner. A key element of corporate governance is the audit committee. In many countries, the audit committee is a committee of a single board of directors and is of a voluntary nature regulated by voluntary codes. In other countries, there are committees which are of a supervisory nature and these are regulated by statute."

Having attended the full CPD presentation, you are to meet with the personnel in the audit department of your firm to guide them in the role of a company audit committee in the external audit engagement process.

Required:

Using the knowledge gained from the ICPAR's organized CPD seminar:

- i) **Describe any FIVE ways in which an audit committee could improve the effectiveness of the external auditor's work.** (10 Marks)
- ii) **Discuss any THREE challenges of ensuring the "independence" of the members of the audit committee where the audit committee is regulated by a voluntary code of practice.** (3 Marks)

(Total: 25 Marks)

QUESTION FOUR

You are a manager in Ineza & Keza Partners, and you are currently assigned to the audit of Tick Gas Co (commonly referred to as "Tick"). Tick, is a listed company and is primarily a gas producer with operations throughout Rwanda with business interests in the six other African countries.

You have just been informed that the management of Tick intends to publish its annual marketing report in the annual report that will contain the financial statements for the year ending 30th September 2025. Extracts from the marketing report include the following:

“Tick sponsors national school sports championships and the cancer ward at the national hospital. The company’s vision is to continue its investment in health, safety and the environment protection.

Our health and safety, security and environmental policies are of the highest standard in the energy sector. We aim to operate under principles of no-harm to people and the environment. Tick’s main contribution to sustainable development comes from providing extra energy in a cleaner and more socially responsible way.

This means improving the environmental and social performance of our operations. Regrettably, five employees lost their lives at work during the year.”

Required:

a) Recommend performance indicators that could reflect the extent to which Tick’s social and environmental responsibilities are being met, and the evidence that should be available to provide assurance on their accuracy. (10 Marks)

b) You are currently planning the audit of your client, Tick Gas Co (“Tick”) for the year ending 30th September 2025.

In January 2025, Tick outsourced its payroll processing to an external service organisation, Kobe Payrolls Co (“Kobe”). Kobe handles all elements of the payroll cycle and sends monthly reports to Tick detailing the payroll costs. Tick ran its own payroll until 31st December 2024, at which point the records were transferred over to Kobe.

Required:

In relation to Tick’s use of the payroll service organisation:

i) Describe the audit risks and explain the auditor’s response to the risks in planning the audit of Tick. (4 Marks)

ii) Explain the additional factors to be considered during the audit of the payroll expense of Tick. (3 Marks)

c) Tick Gas Co produces gas products under three highly reputable brands, which are famous to the public in Rwanda and the other Six (6) African countries as below:

- Home-Red Tick – this gas product line is sold in gas cylinders with each holding small kilograms of gas ranging from 5 Kgs to 15 Kgs exclusively for use domestically in homes.
- GoGo-Green Tick – this gas product line is sold in gas cylinders with each holding large to medium kilograms of gas ranging from 25 Kgs to 50 Kgs exclusively for small and medium businesses operating restaurants.
- BuBu-Blue Tick – this gas product line is sold in gas cylinders with each holding large kilograms of gas ranging from 100 Kgs and above and this is mainly used by the large-sized hotels.

Tick presents revenue earned from the sale of gas on a segmental basis in the notes to the financial statements, with segments primarily based on the three brands.

In 2020, Tick recruited full-time engineers who are used to install the gas equipment and provide follow-up maintenance of the gas equipment for its customers especially the large hotels and these services are all charged. This income stream which is presented as “other incomes” in the financial statements has provided to be successful in the past two years and it is an income stream that is actively monitored by both management and the Board. In the current year, this income stream is expected to contribute to 12% of the total income (2024: 8%). In the past, Tick has not reported this income stream in the segmental information in the disclosure notes of the financial statements.

Required:

Design the principal audit procedures you plan to perform on a segmental basis of the revenue information presented in Tick’s financial statements for the year ended 30th September 2025.

(8 Marks)

(Total: 25 Marks)

End of Question Paper