



**CERTIFIED PUBLIC ACCOUNTANT
INTERMEDIATE LEVEL EXAMINATIONS**

11.4: AUDITING

DATE: FRIDAY 29, AUGUST 2025

INSTRUCTIONS:

1. Time Allowed: **3 hours 15 minutes** (15 minutes reading and 3 hours writing)
2. This Examination is divided into **two** sections (A & B)
3. Section **A** has **Three Compulsory questions** while Section **B** has **three optional questions** to choose **any two**.
4. **Five questions** in total are to be attempted
5. The question paper should not be taken out of the examination room.

SECTION A

QUESTION ONE

TEKINIKA Ltd is a fast-growing IT solutions company located in Bugesera District. It specializes in custom software development and mobile application integration for public and private institutions. The company's financial year ended on 31 March 2025, and your audit firm, TrustAudit & Co., has been appointed as the external auditor for the first time.

As part of the audit planning process, the engagement partner has asked you, as a senior auditor, to brief a team of three new interns who have joined the firm and will be participating in this audit for the first time. The team is expected to follow a risk-based audit approach in accordance with *ISA 315 (Revised): Identifying and Assessing the Risks of Material Misstatement* and *ISA 330: The Auditor's Response to Assessed Risks*.

During the audit fieldwork in May 2025, the audit team encountered two significant events that occurred after the reporting period but before the expected date of the auditor's report.

On 10 April 2025, a fire damaged TEKINIKA's backup servers at its remote data centre. Although insurance is expected to cover most losses, concerns have arisen about the loss of some archived source codes for older client systems. On 30 April 2025, TEKINIKA signed a major contract with a regional telecom provider, which is expected to significantly boost revenue in the new financial year.

The Finance Manager has argued that these events should not affect the 2024/2025 financial statements, but the audit team is not fully convinced. You are asked to guide the team on how to evaluate and respond to such subsequent events in line with *ISA 560: Subsequent Events*.

Required:

- a) As the senior auditor on this engagement, **explain to the new interns the key stages of the audit methodology that TrustAudit & Co. will follow when auditing TEKINIKA Ltd.** (10 Marks)
 - b) Based on the information provided:
 - i) **Advise whether each of the subsequent events is an adjusting or non-adjusting event. Justify your answer.** (4 Marks)
 - ii) **State three appropriate audit procedures the team should perform in response to each of the subsequent events encountered.** (6 Marks)
- (Total: 20 Marks)**

QUESTION TWO

SIMA Ltd is a mid-sized cement manufacturing company based in Ruhango District. The company produces and distributes cements to construction firms across Rwanda and the East African region. It is a private company with ambitions of listing on the Rwanda Stock Exchange within the next two years. Your audit firm, Kiza & Co., has audited SIMA Ltd for the past three years.

For the financial year ended 31 December 2024, the company reported revenue of FRW 18.5 billion, profit before tax of FRW 1.2 billion, and total assets of FRW 12.5 billion. During the year, the company implemented a new Enterprise Resource Planning (ERP) system that experienced technical issues, leading to incorrect classification of inventory. The year-end inventory was reported at FRW 5.1 billion, but the audit team discovered that FRW 300 million

of slow-moving spare parts had been incorrectly classified as finished goods. Management is reluctant to adjust the financial statements, arguing the impact is not material.

In planning the audit, the engagement partner emphasized that the firm would follow a risk-based audit approach when auditing SIMA Ltd. The partner also reminded the audit team of the importance of observing the fundamental principles outlined in the *Code of Ethics for Professional Accountants (IESBA Code)*.

Required:

- a) **Identify and briefly explain the *fundamental principles of professional ethics* that the audit team must adhere to when auditing SIMA Ltd.** (10 Marks)
 - b) Assume that Kiza & Co. has set a preliminary materiality threshold at 5% of profit before tax. Based on the data provided, **compute whether the overstatement of FRW 300 million in inventory is material. Justify your answer.** (6 Marks)
 - c) **Define the term risk-based audit approach and explain its relevance to the audit of SIMA Ltd.** (4 Marks)
- (Total: 20 Marks)**

QUESTION THREE

LINK Rwanda Ltd is a government-affiliated public transportation company headquartered in Kayonza District. It operates a fleet of over 180 buses and minibuses providing scheduled and chartered services across Eastern Province and Kigali. The company is regulated by the Rwanda Utilities Regulatory Authority (RURA) and is classified as a public interest entity under Rwandan company law.

For the year ended 31 December 2024, LINK Rwanda Ltd reported revenue of FRW 8.2 billion, net profit of FRW 620 million, and total liabilities of FRW 5.1 billion. The company receives fare payments both in cash and through an e-ticketing platform operated by a third-party vendor. As part of the audit planning, the audit team has expressed concerns about the completeness of recorded revenue due to potential underreporting of cash fares and inconsistencies in e-ticket reconciliations.

In its draft financial statements, LINK Rwanda Ltd has recognized a provision of FRW 450 million for pending legal claims arising from a road accident involving one of its buses, which resulted in multiple injuries and property damage. The company's lawyers estimate the likelihood of losing the case as probable but note that negotiations are ongoing and the final settlement could vary.

The previous external auditor resigned in mid-2024, citing capacity constraints. The company's Board of Directors has since recommended a new auditor for appointment, but shareholders have not yet approved the engagement in a general meeting. The audit engagement is expected to begin in early September 2025, in accordance with *ISA 300: Planning an Audit of Financial Statements*.

Required:

- a) **Explain in four points how auditors are appointed for companies like LINK Rwanda Ltd in Rwanda.** (4 Marks)
- b) With reference to *IAS 37: Provisions, Contingent Liabilities and Contingent Assets*, **discuss FOUR substantive audit procedures that should be performed to verify the FRW 450 million provision for the legal claim in LINK Rwanda Ltd's financial statements.** (8 Marks)

- c) Identify and explain **FOUR** substantive procedures the auditor should apply to test the completeness and accuracy of **LINK Rwanda Ltd's** revenue for the year ended 31 December 2024. (8 Marks)

(Total: 20 Marks)

SECTION B

QUESTION FOUR

SHANANA Ltd is a family-owned interior design and event decoration company located in Burera District. The company has grown rapidly over the past three years due to increasing demand for corporate and wedding events. SHANANA Ltd reported a revenue of FRW 1.9 billion and net profit of FRW 280 million for the year ended 31 December 2024.

Your firm, K&M Auditors, has received an invitation to be appointed as SHANANA Ltd's external auditor for the upcoming audit. However, the company's Chief Executive Officer (CEO), who is also a majority shareholder, has hinted that he expects the auditors to 'be supportive and flexible' if appointed. SHANANA's previous auditor resigned citing 'incompatible expectations' with management.

The CEO has also been accused in an online exposé of using company funds to pay for personal expenses, including a recent luxury safari. No official investigation has been launched, and the company has denied the allegations. SHANANA Ltd operates without a formal internal audit department and has weak segregation of duties particularly in the accounting and procurement functions, both of which are managed by a single employee.

The engagement partner has instructed the audit team to carefully assess ethical risks, fraud risks, internal control weaknesses, and to comply with *ISA 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* and *ISA 250: Consideration of Laws and Regulations in an Audit of Financial Statements*. The team has also been advised to evaluate whether proper pre-engagement procedures have been followed.

Required:

- a) **States FOUR ethical procedures that auditors must carry out before accepting an audit nomination like SHANANA Ltd's.** (4 Marks)
 - b) With reference to *ISA 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*:
 - i) **Differentiate fraud from error in the context of financial reporting.** (4 Marks)
 - ii) **Discuss the auditor's responsibilities in relation to fraud.** (2 Marks)
 - c) **Briefly state the FIVE components of internal controls as defined in auditing theory and ISA 315 (Revised): Identifying and Assessing the Risks of Material Misstatement.** (10 Marks)
- (Total: 20 Marks)**

QUESTION FIVE

NYWALESS Ltd is a privately owned wholesale distributor of alcoholic and non-alcoholic beverages, headquartered in Gisagara District. The company sources its products from multiple local and international suppliers and supplies to retail chains and hospitality businesses across Rwanda. For the year ended 31 December 2024, NYWALESS Ltd reported revenue of FRW 10.4 billion, net profit of FRW 620 million, and year-end inventory of FRW 2.2 billion.

Due to the seasonal nature of beverage sales, the company maintains high levels of inventory in December. A physical inventory count was performed on 28 December 2024, and the balance was adjusted with goods received and sold up to year-end. Your audit firm, Elite Assurance Partners, has been appointed to perform the year-end audit.

The finance director has provided the team with management-prepared financial statements and a glossy promotional brochure that includes summarized financial results and a message from the Chief Executive Officer (CEO). The audit manager has asked the team to consider the auditor's responsibilities regarding this other information, in line with *ISA 720 (Revised): The Auditor's Responsibilities Relating to Other Information*.

The audit team is preparing to perform substantive testing on inventory and receivables and will be relying on audit sampling techniques as permitted under *ISA 500: Audit Evidence*. The engagement partner has also emphasized the importance of clearly understanding the applicable financial statement assertions, particularly for account balances and related disclosures, as set out in *ISA 315 (Revised): Identifying and Assessing the Risks of Material Misstatement*.

Required:

- a) With specific examples from the case study, **identify and briefly discuss FOUR financial statement assertions related to account balances and related disclosures at period end.** (8 Marks)
 - b) **Outline TWO methods of selecting items for testing under audit sampling, as explained in ISA 500: Audit Evidence.** (2 Marks)
 - c) With reference to ISA 700 (Revised): Forming an Opinion and Reporting on Financial Statements, **briefly state FOUR key factors an auditor should consider before forming an audit opinion.** (8 Marks)
 - d) **Briefly discuss the auditor's responsibilities with respect to other documents that include or accompany the audited financial statements, in line with ISA 720 (revised)** (2 Marks)
- (Total: 20 Marks)**

QUESTION SIX

HAHA Ltd is a medium-sized supermarket chain based in Rubavu District, with two branches and over 40 employees. The company operates a centralised accounting system managed from its head office, while daily operations, including sales and inventory, are handled at the branch level. For the year ended 31 December 2024, HAHA Ltd reported revenue of FRW 4.3 billion, gross profit of FRW 1.1 billion, and a closing inventory of FRW 690 million.

Sales at both branches are handled by cashiers who manually record transactions throughout the day and submit handwritten summaries to the finance team. The company has not implemented a system for reconciling these daily sales records to the actual amounts received through cash or mobile money, which are deposited by the cashiers at the end of each shift. Pricing decisions and promotional discounts are frequently handled at the cashier level, with manual price reductions processed without needing prior approval from a supervisor or manager. The company also operates a loyalty program, but it does not actively track or investigate customer complaints regarding uncredited points. At the close of business, sales summaries are filed directly with head office with no formal review or approval by the branch manager.

Inventory is managed manually by storekeepers, with stock counts carried out only once at the end of each year. Storekeepers are permitted to update stock records on their own without a requirement for authorisation or review. In practice, there is no separate identification or recording of damaged, expired, or returned goods; these items are often discarded without documentation. Goods received from suppliers are accepted into store without being checked

against delivery notes, and the company does not regularly reconcile physical inventory levels with its accounting records.

The audit engagement partner has requested that the audit team assess the implications of these operating practices in accordance with *ISA 315 (Revised): Identifying and Assessing the Risks of Material Misstatement*. The partner has also requested a short briefing for new interns explaining the duties of the auditor and the different types of public sector audits, given the interns' interest in governance and accountability in public finance.

Required:

- a) With reference to *ISA 315 (Revised): Identifying and Assessing the Risks of Material Misstatement*:
 - i) **Identify and evaluate THREE weaknesses in HAHA Ltd's sales internal control system.** (6 Marks)
 - ii) **Identify and examine TWO weaknesses in HAHA Ltd's inventory management system.** (4 Marks)
 - b) **Outline FOUR duties of the external auditor, in accordance with the Law Governing Companies in Rwanda.** (4 Marks)
 - c) **Briefly explain THREE types of public sector audits.** (6 Marks)
- (Total: 20 Marks)**

End of Question Paper

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