CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.2 AUDIT PRACTICE AND ASSURANCE SERVICES

DATE: FRIDAY 28, AUGUST 2026

MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE

MARKING GUIDE

Sub-question	Marking Details (per valid point)	Marks
(a)	Raw materials: identifies that IAS 2 prohibits the LIFO cost formula (only FIFO/weighted average permitted) and explains resulting overstatement risk.	1.5
	Raw materials: identifies that no NRV assessment was performed despite entry of a superior competing material, and explains the risk that raw materials/inventory are overstated.	2
	WIP: explains that measurement at market price plus 10% is not "cost" under IAS 2 (cost = materials + labour + allocated production overheads).	1.5
	WIP: explains that this treatment builds in unrealised profit before sale, overstating both inventory and profit.	1.5
	Obsolete finished stock: identifies that management's own assessment found NRV < cost following the competitor's new product, but no write-down was applied - breach of IAS 2 para 9.	1.5
	Obsolete finished stock: explains the management bias/override risk given management's unsupported justification for not writing the stock down.	1.5
	Overall conclusion: links each issue to the relevant assertion (valuation/existence) and to management's incentive (loan covenant/bank facility) to overstate profit and assets.	2.5
	Sub-total - part ((a))	12
(b)	Identifies and justifies an appropriate materiality benchmark (e.g. revenue or total assets rather than PBT, given PBT volatility/going-concern doubt and that PBT is itself affected by the misstatements under review).	2
	Correctly computes preliminary materiality (and, ideally, performance materiality) using the chosen benchmark and a reasonable percentage.	1.5
	Quantifies the WIP mark-up overstatement (or another quantifiable misstatement) and compares it to materiality.	1.5
	Reaches a reasoned conclusion on materiality of the two misstatements selected, including appropriate use of qualitative materiality factors where amounts cannot be precisely quantified.	1
	Sub-total - part ((b))	6
(c)	WIP substantive procedures: at least 4 relevant, well-explained procedures addressing valuation/cost build-up, cut-off, treatment of	4

Sub-question	Marking Details (per valid point)	Marks
	abnormal/idle costs, and use of the signed sales order to test NRV (1 mark per valid procedure, max 4).	
	PPE substantive procedures: at least 4 relevant procedures addressing capital vs repairs classification, existence/verification, depreciation, borrowing costs and impairment indicators (1 mark per valid procedure, max 4).	4
	CAATs for completeness/accuracy of data uploaded after the July 2025 system crash: at least 4 relevant techniques, e.g. sequence/gap testing, data matching/reconciliation, reperformance of cost allocation, analytical trend testing (1 mark per valid technique, max 4).	4
	Sub-total - part ((c))	12
(d)	Identifies and critically evaluates (not just lists) financial indicators of going concern doubt, discussing severity/interconnection - e.g. covenant breach, bank demand for repayment, negative cash flows, customer failure, uninsured fire loss (1 mark per indicator evaluated, max 5).	5
	Critiques management's basis for concluding going concern is "completely secure" (reliance on an unevidenced verbal agreement).	1
	Designs procedures to challenge the feasibility of management's mitigating plans - e.g. review of cash flow forecast/assumptions, third-party/bank confirmation, sensitivity analysis, legal enquiry, written representations (1 mark per valid procedure, max 4).	4
	Sub-total - part ((d))	10
(e)	Explains the reporting implications of the unwritten-down inventory - a material misstatement under IAS 2 - and its effect on the audit opinion (qualified "except for" if material but not pervasive).	3
	Explains the reporting implications of the missing going concern disclosure under ISA 570 (Revised)/ISA 705 - inadequate disclosure of a material uncertainty is itself a misstatement - and discusses qualified vs adverse opinion depending on pervasiveness.	3
	Discusses the combined/aggregate effect of both matters on pervasiveness and the appropriate opinion.	2
	Recommends a course of action: communication with those charged with governance, requesting correction/adequate disclosure, documentation, and next steps if management refuses.	2
	Sub-total - part ((e))	10
	Total Marks for Question One	50

DETAILED MODEL ANSWER

(a) Appropriateness of the accounting treatment against IAS 2 and risk of material misstatement (12 Marks)

(i) Valuation of raw materials

IAS 2 Inventories requires inventories to be measured at the lower of cost and net realisable value (NRV), and specifically permits only the First-In-First-Out (FIFO) or weighted average cost formulas for items that are not ordinarily interchangeable; the Last-In-First-Out (LIFO) method is explicitly prohibited. THL's use of LIFO to value its raw material inventories, on the basis that it reports inventories at 'the latest market prices', is therefore a direct breach of IAS 2 and is not a matter of accounting policy choice. This creates a risk of material misstatement because LIFO will, in a period of rising prices, understate the cost of sales and overstate the closing inventory value (and consequently overstate gross profit and total assets) relative to a compliant cost formula.

In addition, following the introduction of a new, more competitive roofing material, a significant portion of the raw material balance is now composed of the older material. No assessment of NRV was performed for this older stock. Where technological or market developments make existing raw materials less desirable, this is a clear indicator that NRV may have fallen below cost, and IAS 2 requires a write-down in these circumstances. The failure to perform any NRV assessment is therefore a further breach of IAS 2 and gives rise to a risk that raw material inventory (and profit) is materially overstated.

(ii) Valuation of work-in-progress (WIP)

Management has directed that WIP be reported at current market price plus 10% (to 'accommodate inflation'), on the basis that a customer order already exists for the batch. This is not consistent with IAS 2. Cost, for WIP, comprises the cost of raw materials, direct labour and a systematic allocation of production overheads incurred in bringing the inventory to its present location and condition - it does not include an arbitrary margin over selling price. Even though the existence of a signed customer order is a relevant consideration in assessing NRV (expected selling price less costs to complete and sell), NRV is a ceiling to be applied only when cost exceeds it - it is not a substitute basis of measurement in place of cost, and marking WIP up above its own selling price is not supportable under any reading of IAS 2. This treatment effectively recognises unrealised profit on an item that has neither been completed nor sold, overstating both inventory and profit, and understating the current liabilities-based ratios is instead flattered - management has explicitly acknowledged that this treatment 'improved the current ratio' to help secure bank financing, which is a strong fraud/bias risk factor (deliberate manipulation to influence a lender), rather than an innocent estimation error.

(iii) Obsolete inventory

Following the market's shift toward a rival's superior roofing product, THL's own assessment concluded that a significant portion of its finished stock is obsolete and will need to be sold at a loss. IAS 2 paragraph 9 requires inventories to be written down to NRV whenever NRV falls below cost, and this is not a discretionary treatment - once management's own assessment has identified obsolescence, a write-down is required. Management's justification for not writing down the stock (an intention to sell at existing prices 'due to advertising efforts') is not objective evidence of a recoverable NRV; it is optimistic assertion in the face of contrary evidence (an admitted management-performed obsolescence assessment). This treatment overstates inventory, understates cost of sales, and overstates profit, and again indicates a risk of management override of controls/bias, particularly given the incentive to present a strong current ratio and profit figure to the bank.

Overall risk of material misstatement

Each of the above matters gives rise to a risk of material misstatement at the assertion level of valuation (and, for the WIP mark-up, occurrence/measurement of profit), driven by two compounding factors: (1) inherent risk is high because inventory valuation is judgmental and estimation-based, and (2) there is a clear management incentive - the pending bank loan for expansion, the desire to present a healthy current ratio, and the requirement to satisfy the Capital Trust Bank debt covenants - to overstate assets and profit. The auditor should therefore treat inventory valuation as a significant risk requiring specific, robust substantive procedures (see part (c)) rather than relying on analytical review alone, and should heighten professional scepticism given the evidence of possible management bias.

(b) Preliminary materiality and assessment of two misstatements (6 Marks)

Choice of benchmark

Profit before tax (PBT) is usually a common benchmark for materiality, but it is not the most appropriate benchmark for THL this year for two reasons: first, PBT has fallen from FRW 9,620,000 thousand in 2024 to FRW 7,380,000 thousand in 2025 (a 23% decline), indicating volatility and reduced reliability as a stable base; and second, PBT is itself directly affected by the very misstatements being evaluated in part (a) (inventory valuation feeds straight into cost of sales and profit), so using it as the yardstick would be somewhat circular. A more stable and appropriate benchmark in these circumstances is Total Revenue (or, alternatively, Total Assets), which are less distorted by the specific judgmental issues under review and are commonly used benchmarks for capital-intensive manufacturing entities, particularly where there is a risk to the going concern basis.

Computation

Total Revenue for 2025 = FRW 45,200,000 thousand

Preliminary materiality at 1% of revenue = FRW 452,000 thousand (i.e. FRW 452 million)

Performance materiality (say 75% of preliminary materiality, to build in a margin for undetected/aggregated errors, given the elevated risk environment) ≈ FRW 339,000 thousand

(A range of 0.5%–1% of revenue, or 1%–2% of total assets, would also be acceptable, provided the candidate justifies the percentage chosen and is internally consistent.)

Assessment of two misstatements

WIP mark-up (quantifiable): WIP is stated at market price plus 10%, i.e. the reported balance of FRW 28,000,000 thousand represents 110% of the underlying market-price value. The embedded mark-up is therefore approximately FRW 28,000,000 × (10/110) ≈ FRW 2,545,455 thousand. This exceeds the preliminary materiality of FRW 452,000 thousand (and even performance materiality) many times over, and is therefore individually material - indeed material on its own even before considering any other misstatement.

Obsolete/unwritten-down finished stock (not separately quantified in the scenario): Although management has not disclosed the precise amount by which the obsolete stock should be written down, the item should still be assessed as material using qualitative factors under ISA 320: it arises from a clear breach of IAS 2, it affects a significant class of transactions (the entire finished-goods balance of FRW 12,600,000 thousand is potentially affected), it was identified by management's own internal assessment (making it highly probable that a meaningful write-down is required), and it directly affects the current ratio being relied upon by the bank. On this basis, the auditor should treat it as material by

nature even in the absence of a firm quantification, and should insist that management perform and support a reliable NRV assessment before concluding on materiality with precision.

Conclusion: both misstatements should be considered material, and, taken together, they raise the possibility of pervasive misstatement across the financial statements, which is relevant to the auditor's reporting decision in part (e).

(c) Substantive procedures for WIP and PPE valuation, and use of CAATs (12 Marks)

Substantive procedures - WIP valuation

- ✓ Obtain the WIP costing schedule by batch and recalculate the cost build-up (direct materials, direct labour and an appropriate allocation of production overheads based on normal capacity) independently of management's 'market price plus 10%' basis, and compare the recalculated cost to the reported balance.
- ✓ For the specific batch subject to the customer order, obtain the sales contract and independently compute NRV (contracted selling price less estimated costs to complete and sell) and compare this to recalculated cost to confirm which is lower, and confirm that the balance actually recognised reflects cost (not NRV, and not market price plus a margin).
- ✓ Attend the year-end (or a rolled-forward) physical inventory count, observe and re-perform stage-of-completion assessments for a sample of WIP batches, and test the reasonableness of the percentage completion applied.
- ✓ Recalculate the overhead absorption rate applied to WIP and confirm it is based on normal (not actual, potentially depressed) production levels; confirm that costs of abnormal wastage or idle capacity (e.g. arising from the July 2025 system crash - see below) have been expensed rather than capitalised into WIP, in line with IAS 2 paragraph 16.
- ✓ Perform cut-off testing on transfers between raw materials, WIP and finished goods around the year end.

Substantive procedures - PPE valuation

- ✓ Obtain the non-current asset register/additions schedule for the new machinery acquired in May 2025; vouch a sample of additions to supplier invoices, board minutes approving the acquisition, and proof of payment/loan drawdown.
- ✓ For the 'major repairs and maintenance' expenditure, critically assess management's classification between capital expenditure and revenue expenditure against the recognition criteria in IAS 16 (i.e. whether the expenditure enhances the asset's economic benefits beyond its originally assessed standard of performance, such as increasing production capacity, in which case capitalisation may be appropriate) rather than accepting management's classification at face value.
- ✓ Recalculate depreciation for the new machinery, confirming the depreciation start date (date the asset was available for use, not the acquisition date), useful life and method used are appropriate and consistently applied.
- ✓ Where the acquisition was funded via the Director's loan, consider whether any borrowing costs incurred during the installation/construction period should be capitalised under IAS 23, and test the calculation if so.
- ✓ Physically inspect a sample of significant machinery items (existence and condition) and consider whether indicators of impairment exist under IAS 36 (e.g. the shift in market demand toward competitors' products, and the going concern difficulties discussed in part (d)), requiring an impairment assessment.

Use of CAATs to test completeness and accuracy of data uploaded after the July 2025 system crash

- ✓ Use audit software to perform sequence/gap testing on production batch/job numbers across the four-day outage period to identify any batches recorded on the manual spreadsheets that were never subsequently uploaded to the system (completeness), and any duplicated uploads (accuracy).
- ✓ Electronically match the manual spreadsheet records maintained during the crash to the corresponding entries subsequently uploaded into the system (by batch/job reference, quantity, and date) to identify omissions, duplications or amendments made during upload.
- ✓ Reperform, using CAATs, the system's cost-allocation logic (materials, labour and overhead allocation to WIP) for a sample of manually-uploaded transactions and compare the recalculated results to what was recorded, to test whether the manual entries were processed on a basis consistent with system-generated entries.
- ✓ Run analytical trend analysis of daily production output before, during and after the outage to identify unusual gaps, spikes or patterns consistent with incomplete or erroneous data capture.
- ✓ Test IT general controls over the manual override/upload process (e.g. access rights, authorisation of manual journal uploads, change logs) to assess the risk that unauthorised or erroneous data was introduced when the system was restored.

(d) Going concern indicators and procedures to challenge management's mitigating plans (10 Marks)

Critical evaluation of financial indicators of going concern doubt

Persistent negative net cash flow for the last six months of the year, forecast to continue - a strong indicator of liquidity stress that, unlike a single bad month, suggests a structural rather than temporary problem.

Breach of the debt-to-equity covenant with Capital Trust Bank (increased from the permitted maximum of 2:4 to 2:4-breaching 3:4) caused specifically by the undisclosed Director's loan - this is a self-inflicted breach caused by non-disclosure to the bank, which is likely to aggravate (rather than mitigate) the bank's willingness to be flexible, since it may also indicate a breach of good faith/covenant compliance obligations.

Capital Trust Bank has demanded full repayment of the FRW 42 billion loan within four months - this converts what might otherwise be a long-term facility into an immediate, severe cash demand that the negative cash flow trend suggests THL cannot meet; this is one of the most serious indicators present and should be weighted heavily.

Loss of a major customer representing 42% of receivables, now in liquidation, with no credit insurance in place and no replacement sales manager - this indicates both a going concern risk (loss of a large portion of expected future revenue and cash collections) and an existing asset recoverability issue (receivable likely irrecoverable), compounding the cash flow problem identified above.

Non-compliance with payment terms to major suppliers - often an early warning sign that can lead suppliers to withdraw credit terms or require cash-on-delivery, further squeezing operating cash flow.
Loss of a significant portion of raw material inventory in the January 2026 fire, apparently uninsured (or insurance status unresolved) - a further, subsequent-event drain on resources at a time the company can least afford it, potentially disrupting production and near-term revenue.

Competitive and regulatory pressures - the emergence of a superior rival product (reducing demand for THL's existing product range) and the continued refusal of an import licence for cheaper overseas raw materials (while a competitor was granted similar access) - both signal a deteriorating competitive position that is likely to persist.

The decision not to pay a final dividend in 2026, while prudent cash management, is itself a signal (and likely a market signal to other stakeholders) that the directors themselves recognise a cash constraint.
Taken together, these indicators are severe, numerous and mutually reinforcing (a liquidity crisis, a covenant breach, a bank recall of debt, and a major customer loss all occurring simultaneously), and they cast significant doubt on THL's ability to continue as a going concern. Management's assertion that going concern is 'completely secure' is not supported by objective evidence - it rests solely on an unevidenced verbal agreement being negotiated with unnamed stakeholders, which does not meet the threshold of persuasive audit evidence and should be challenged robustly by the auditor rather than accepted.

Procedures to challenge the feasibility of management's mitigating plans
Obtain management's going concern assessment and supporting cash flow forecast (covering at least twelve months from the reporting date, ideally to the date the financial statements are approved) and test the mathematical accuracy and the reasonableness of the key assumptions (e.g. replacement of the lost customer's revenue, collection patterns, supplier payment terms) against historical performance and current trading conditions.

Request that the 'verbal agreement being negotiated with key stakeholders' be evidenced in writing; in its absence, treat management's assertion with scepticism and seek independent corroboration (e.g. direct correspondence or confirmation with Capital Trust Bank on the status of any standstill, forbearance or renegotiation discussions, and on whether the bank is willing to extend the four-month repayment deadline).

Perform sensitivity analysis on the cash flow forecast for reasonably possible adverse changes in assumptions (e.g. permanent loss of the failed customer's revenue, further supplier credit withdrawal, no covenant waiver) to assess the range of outcomes and the robustness of management's conclusion.
Review post year-end and post-balance-sheet-date events, board minutes, and correspondence for evidence of actual progress (or lack thereof) on the negotiations, and consider enquiry of the entity's legal counsel regarding any litigation risk from the bank or from the liquidated customer.

Evaluate the feasibility of any other mitigating actions identified by management (e.g. asset disposals, further capital injection, subordination of the Director's loan to the bank debt) by obtaining third-party evidence such as signed agreements, valuations, or bank correspondence, rather than relying on management's intentions alone.
Obtain written representations from management confirming the assumptions underlying the going concern assessment and their plans, while recognising that representations alone do not constitute sufficient appropriate evidence.

(e) Reporting implications and recommended course of action (10 Marks)

Unwritten-down obsolete inventory

As established in part (a), the failure to write down the obsolete finished stock to NRV is a breach of IAS 2 and represents a misstatement of the financial statements. If, after further procedures, management still refuses to adjust the financial statements and the amount is material but not pervasive, JN Partners Ltd should issue a qualified 'except for' opinion under ISA 705 (Revised) in respect of the inventory misstatement. Should the amount, in combination with other uncorrected misstatements, be judged to be pervasive to the financial statements as a whole (affecting a substantial proportion of them, or fundamental to users' understanding), an adverse opinion would instead be appropriate.

Missing going concern disclosure

Under ISA 570 (Revised), where a material uncertainty related to going concern exists (as concluded in part (d)) but management has not adequately disclosed it in the notes to the financial statements, this is treated as a further misstatement of the financial statements, not merely a matter calling for an Emphasis of Matter paragraph. If the going concern basis of preparation is nonetheless still considered appropriate by the auditor, but disclosure is inadequate, the auditor should express a qualified or adverse opinion (per ISA 705), and would not additionally need an Emphasis of Matter paragraph. Management's assertion that going concern is 'completely secure' also calls into question whether the going concern basis of preparation itself remains appropriate; if the auditor concludes that the going concern basis is no longer appropriate (rather than merely uncertain), an adverse opinion is required regardless of disclosure, because the financial statements would then be prepared on a fundamentally inappropriate basis.

Combined effect and recommended course of action

Considered together - a material, standard-breaching inventory misstatement and an unresolved, severe going concern uncertainty that is inadequately disclosed - the auditor should assess whether the cumulative effect is pervasive. Given the severity of the going concern indicators identified in part (d) (a called loan, a covenant breach and a major customer failure occurring together), a pervasive conclusion, and therefore an adverse opinion, is likely to be warranted unless management takes prompt corrective action.

JN Partners Ltd should take the following course of action:

Communicate both matters clearly, and at the earliest opportunity, to those charged with governance (ISA 260), explaining the required accounting treatment and disclosure and requesting that management amend the draft financial statements accordingly.

If management amends the financial statements to write down the obsolete stock and to include adequate going concern disclosure, and if, following the additional procedures in part (d), the auditor concludes the going concern basis remains appropriate, the auditor would include a separate 'Material Uncertainty Related to Going Concern' section in an otherwise unmodified report, in accordance with ISA 570 (Revised).

If management refuses to make the necessary adjustments and disclosures, issue a modified opinion (qualified or adverse, as assessed above) under ISA 705 (Revised), clearly describing the basis for modification.

Document all matters, the evidence obtained, and the rationale for the conclusions reached, given this is a first-year audit engagement carrying heightened risk and potential reliance by the bank on the audit opinion.

Consider seeking legal advice given the entity's financial distress and the possibility of third-party reliance and potential future claims, and consider whether the circumstances (e.g. evidence of deliberate manipulation to influence the bank) raise any matters reportable to ICPAR or other regulators.

SECTION B

QUESTION TWO
MARKING GUIDE

Sub-question	Marking Details (per valid point)	Marks
(a)	Recalculates and evaluates the revenue growth assumption (28.9%) against the market share and tendering assumptions for internal consistency and supportability.	2
	Recalculates and critically evaluates the cost of sales assumption - showing the COS/Revenue ratio falls from ~84.4% to ~72.4% - and challenges whether this is achievable from fuel monitoring alone given fleet expansion.	2
	Evaluates the finance cost assumption, recognising the internal inconsistency of finance costs falling by 50% while new FRW 1 billion debt is being raised.	2
	Evaluates other assumptions (market share achievability, precision of the tendering timing assumption, maintenance costs, borrowing cost certainty) and reaches an overall reasoned conclusion on the forecast's reliability.	2
	Sub-total - part ((a))	8
(b)	Identifies matters to consider before accepting the two engagements: suitability of criteria/subject matter, independence/self-review threats given the existing audit relationship, competence (possible need for a specialist valuer), engagement letter terms and restricted distribution to the bank (1 mark per valid matter, max 3).	3
	Clearly and correctly explains how the level of assurance differs between the two engagements (limited assurance review of historical PPE vs limited/moderate assurance on a forward-looking PFI report with an explicit disclaimer on outcome achievability).	2
	Sub-total - part ((b))	5
(c)	Identifies the independence/ethical threats in accepting the forensic engagement (self-review and self-interest linked to the firm's own prior audit conclusions).	2
	Discusses competence and legal/regulatory considerations (need for forensic specialists; obligations regarding reporting of suspected fraud).	2
	Reaches a reasoned conclusion on acceptance, with appropriate safeguards or an alternative recommendation (e.g. engaging an independent forensic specialist).	2
	Sub-total - part ((c))	6

Sub-question	Marking Details (per valid point)	Marks
(d)	Anomaly 1 (room payments in logbooks never posted to RMS): relevant investigative procedure and expected evidence, with conclusion on how it corroborates/refutes the allegation.	2
	Anomaly 2 (card settlement batches below authorisation amounts): relevant investigative procedure and expected evidence, with conclusion on how it corroborates/refutes the allegation.	2
	Anomaly 3 (cash deposits short of recorded receipts): relevant investigative procedure and expected evidence, with conclusion on how it corroborates/refutes the allegation.	2
	Sub-total - part ((d))	6
	Total Marks for Question Two	25

DETAILED MODEL ANSWER

(a) Evaluation of the reasonableness of the 2027 profit forecast assumptions (8 Marks)

Revenue growth: (580,000 − 450,000) / 450,000 = 28.9%, which arithmetically agrees with the stated assumption. However, the assumption relies on securing a 'dominant market share' in a market explicitly described as facing 'intense competitive rivalry' from existing operators - this is an optimistic, largely unsubstantiated assumption, and no evidence (e.g. signed contracts) is presented to support it being achievable.

Cost of sales: the COS/Revenue ratio improves from 380,000/450,000 = 84.4% in 2026 to 420,000/580,000 = 72.4% in 2027 - a 12-percentage-point improvement attributed solely to automated fuel monitoring. This is not internally consistent with the fact that the fleet is expanding with new trucks (financed by the proposed loan): a larger, newer fleet handling higher volumes would normally be expected to increase absolute fuel, tyre, maintenance and depreciation costs, not reduce the cost ratio so dramatically from a single efficiency measure. This assumption should be treated with considerable scepticism.

Fleet maintenance and repair costs are assumed to decline significantly because of hiring 'experienced drivers' who will 'minimise mechanical breakdown frequencies' - this again works against the expectation that a larger, more heavily-utilised fleet (post-expansion) would incur higher, not lower, absolute maintenance costs, and provides no quantified basis for the assumed decline.

Finance costs are assumed to fall from 120,000 to 60,000 (a 50% reduction) in the very year the company intends to draw down a new FRW 1 billion loan to buy trucks - this is directly inconsistent with the underlying facts of the scenario; new debt should increase, not halve, finance costs, unless offset by a specific, disclosed repayment of other more expensive debt (no such offsetting fact is given).

The assumption that the procurement/tendering process for the new trucks will be 'finalised and fully operational precisely at the commencement of the 2027 financial year' reflects an unrealistic level of precision - public procurement and tendering processes are commonly subject to delay, and the entire

forecast (revenue growth, cost efficiencies) depends on the new fleet being available exactly on schedule.

The assumption that borrowing and finance costs will 'match management's estimates exactly' because of the Finance Manager's 'extensive historical treasury experience' overstates the certainty available; interest rate risk is a market-wide risk that experience alone cannot eliminate, and forecasts should acknowledge a range rather than assert precision.

Overall conclusion: the assumptions underlying the 2027 profit forecast are, taken together, overly optimistic and in places internally inconsistent (particularly cost of sales and finance costs moving in the opposite direction to what fleet expansion and new borrowing would suggest). Expert CPA Ltd should not accept the forecast assumptions at face value; it should require management to substantiate each key assumption, perform sensitivity analysis, and be prepared to modify its report or require revision of the assumptions before reporting to the bank.

(b) Matters to consider before accepting the PPE review and PFI engagements, and the difference in assurance level (5 Marks)

Matters to consider before acceptance

Suitability of criteria and appropriateness of the subject matter: for the PPE engagement, confirm the basis of valuation to be reported on (e.g. IFRS carrying amount) is suitable and available; for the PFI engagement, confirm the assumptions are best-estimate (not purely hypothetical) and that the forecast period (to December 2027) is not excessively long for a reliable forecast.

Independence and self-review threat: as Expert CPA Ltd is already the statutory auditor of K&J, it should consider whether using audit evidence/conclusions already reached creates a self-review threat, and put safeguards in place (e.g. a different engagement partner/team, or an engagement quality control review) to preserve objectivity.

Competence and resources: assess whether the firm has the technical competence (e.g. fleet/vehicle valuation expertise) to review the PPE carrying amount, or whether a management's/auditor's expert is required; likewise assess competence to evaluate the reasonableness of prospective financial assumptions.

Terms of engagement: agree and document the scope, the criteria to be used, the level of assurance to be expressed, and - critically - restrict distribution and use of both reports to the bank (as the specified intended user), given the reports are being prepared for a specific lending decision.

Preconditions and management's responsibilities: confirm management accepts responsibility for the PPE carrying amounts and for the forecast and its underlying assumptions, and that sufficient appropriate evidence will be accessible.

Difference in the level of assurance

The independent review of PPE carrying amount is based on historical, largely verifiable information and, being a review rather than an audit, provides limited (negative) assurance - a conclusion that 'nothing has come to the practitioner's attention to indicate the carrying amount is not fairly stated', based mainly on inquiry and analytical procedures rather than full audit-level testing. The PFI (profit forecast) engagement, performed in accordance with the standard on prospective financial information,

also results in limited/moderate assurance, but the nature of that assurance is different: because the subject matter is inherently uncertain and forward-looking, the practitioner expresses a conclusion only on whether the assumptions provide a reasonable basis for the forecast and whether the forecast has been properly prepared on that basis - the report must include an explicit statement that no assurance is expressed as to whether the actual results will correspond with those presented in the forecast. In short, both are limited-assurance engagements, but the PPE review assures a present, largely factual balance, whereas the PFI report assures only the reasonableness of the process and assumptions behind a future, inherently uncertain outcome.

(c) Should JJ Partners Ltd accept the request to investigate the Nyagatare fraud? (6 Marks)

JJ Partners Ltd, as the group's statutory auditor, should not accept the forensic investigation request without very careful evaluation, for the following reasons:

Self-review threat: JJ Partners audits the Nyagatare Branch's financial statements, including the revenue recorded through the Revenue Management System that is now the subject of the fraud allegations. Investigating the fraud would effectively require JJ Partners to evaluate the adequacy of controls and balances that its own audit team has previously audited (or is currently auditing), creating a significant self-review threat - there is an inherent risk that the investigation could be influenced (consciously or not) by a desire to avoid exposing shortcomings in the firm's own prior audit work.

Self-interest and objectivity threat: if the investigation reveals that the fraud should have been detected earlier by the statutory audit, this exposes the firm to reputational and potential legal risk, creating pressure that could compromise the objectivity of the investigation team.

Competence: forensic investigation requires specialised skills (e.g. forensic accounting, fraud examination techniques, evidence-gathering for potential legal proceedings) that may go beyond the audit team's expertise; the firm must honestly assess whether it, or a specific forensic unit within it, has the necessary competence.

Legal and regulatory considerations: fraud of this nature may need to be reported to law enforcement or other regulatory authorities; JJ Partners must consider its own legal and professional obligations in this regard independent of the client relationship, and must not allow commercial considerations (retaining a valuable audit client) to influence whether/how findings are escalated.

Conclusion: JJ Partners could potentially accept the engagement only if robust safeguards are implemented - a forensic team that is completely separate from, and independent of, the individuals who performed the Nyagatare Branch audit, oversight by a partner not involved in the statutory audit, and clear communication to those charged with governance about the scope and limitations of the work and its relationship to the ongoing statutory audit. However, given the direct overlap between the alleged fraud and areas already audited by the firm, and the risk that the investigation's credibility (and JJ Partners' own exposure) could be called into question, the safer and more defensible course of action is to recommend that Delicious Hotel Ltd engage an independent, unconnected forensic specialist firm to conduct the investigation, while JJ Partners considers the implications of the findings for its ongoing statutory audit responsibilities.

(d) Procedures to investigate three anomalies at Nyagatare Branch (6 Marks)

1. Room payments recorded in physical guest logbooks never posted to the RMS

Procedure: for a sample of dates, trace all payments recorded in the physical guest logbooks to the RMS and to the bank deposit records; independently recompute expected room revenue using real-time occupancy data from the central reservation network and compare this to revenue actually recorded in the RMS for the same period. Evidence expected: a consistent, unexplained gap between logbook/occupancy-based revenue and RMS-recorded revenue would corroborate the allegation of skimming/bypassing the RMS; full reconciliation without unexplained gaps would tend to refute it.

2. Merchant card settlement batches lower than initial authorisations

Procedure: obtain merchant settlement reports and POS authorisation logs for a sample of transactions/days, compare authorised amounts to settled amounts, and for every downward adjustment (e.g. voids, discounts, 'complimentary' reclassifications) obtain the supporting documentation and identify who authorised it. Evidence expected: a pattern of unexplained downward adjustments authorised solely by Bosco, with no independent second authorisation or supporting discount policy, would corroborate the allegation; adjustments properly authorised and documented in line with hotel policy would refute it.

3. Physical cash deposits at the bank falling short of recorded cash receipts

Procedure: reconcile daily cash register/day-end tally sheets to bank deposit slips and bank statements for a representative sample of days, recompute any 'cash over/short' reports prepared at branch level, and, where possible, corroborate cash-handling procedures through enquiry of front-desk staff other than Bosco and review of any available CCTV or system access logs around cash handling and reconciliation. Evidence expected: a persistent, unexplained shortfall between recorded cash receipts and amounts actually banked would corroborate skimming; a shortfall fully explained by legitimate timing differences (e.g. late-night deposits credited the next banking day) would refute it.

QUESTION THREE

MARKING GUIDE

Sub-question	Marking Details (per valid point)	Marks
(a)	Identifies the familiarity/self-interest threat arising from the marriage between Audit Manager John and Finance Manager Kelly.	1.5
	States the appropriate safeguard (removal of John from the engagement) and explains why lesser safeguards are inadequate given Kelly's direct influence over the figures being audited.	1.5
	Identifies the self-interest/familiarity threat from the gifts (premium headsets) and the 40% purchase discount, explaining why these are not "trivial and inconsequential".	1.5
	States the required safeguard for the gifts/discount (decline/return, reiteration of firm gift policy, documentation).	1
	Identifies the self-interest threat from fee dependency (22% of firmwide fee income) and the fee sensitivity signalled during renewal discussions.	1.5

Sub-question	Marking Details (per valid point)	Marks
	States appropriate safeguards for the fee dependency threat (independent/engagement quality control review, disclosure to those charged with governance, or declining to continue if the threat cannot be reduced).	1.5
	Identifies the self-review threat from the request that Smart Audit Partners draft the IFRS financial statements and advise on warranty provisioning/revenue recognition.	1.5
	Explains why management's stated inability to meaningfully review the drafts (limited expertise, intends only to "sign off") means the usual safeguard is not credible, and concludes the firm should decline the non-assurance work or use a fully separate team.	1.5
	Overall, well-reasoned conclusion linking the threats together and to the risk of compromised audit quality/independence.	1
	Sub-total - part ((a))	13
(b)	Identifies inadequate direction and supervision - Audit Manager John overloaded across three engagements and delegating fieldwork entirely to an inexperienced senior auditor - as a breach of ISA 220 engagement performance requirements.	2.5
	Identifies the senior auditor's unjustified/undocumented decision not to send external receivables confirmations, with no evidence of escalation to the manager or partner.	1.5
	Links this omission directly to the assertion at risk (existence of receivables) and to the misappropriation subsequently discovered.	1.5
	Identifies the inappropriate assignment of the legal/regulatory compliance review to an inexperienced junior with no effective supervision, resulting in the import-licence compliance issue being missed entirely.	2
	Identifies that working papers without tick marks were signed off by both the senior auditor and audit manager without query, evidencing an ineffective/perfunctory review process (breach of ISA 230/ISA 220).	1.5
	Explains the consequences for the reliability of the audit opinion: sufficient appropriate evidence was not obtained, the opinion issued was not adequately supported, and the firm is exposed to regulatory action and third-party (bank) reliance/negligence claims.	3
	Sub-total - part ((b))	12
	Total Marks for Question Three	25

MODEL ANSWER

(a) Ethical threats and safeguards (13 Marks)

1. Family relationship between the Audit Manager and the Finance Manager

John, the assigned Audit Manager, is married to Kelly, SVDL's Finance Manager, who oversees the month-end close, inventory costing and management accounts that feed directly into the year-end financial statements, and who was also the audit team's main point of contact. This is a significant familiarity and self-interest threat under the IESBA Code, because an immediate family member of a member of the audit team is in a position to exert direct and significant influence over the subject matter of the engagement. This threat is so severe that no safeguard can reduce it to an acceptable level while John remains on the engagement - the required action is to remove John entirely from the SVDL engagement team (and ideally from any oversight role over it) and assign a different, unconnected manager.

2. Gifts and preferential discount from the Managing Director

The MD provided the senior audit team with premium electronic headsets and an ongoing 40% purchase discount. Under the IESBA Code, an auditor may only accept gifts or hospitality that are trivial and inconsequential - premium items and an ongoing, substantial discount are neither. Accepting them creates a self-interest and familiarity threat that could improperly influence the team's professional judgement (e.g. reluctance to challenge management on contentious accounting issues). The safeguard is straightforward: the items/discount should be declined or returned, the firm's policy on gifts and hospitality should be reiterated to the team, and the matter should be documented; if already accepted and used, the firm should assess the impact on independence and consider whether affected individuals should be removed from the engagement.

3. Fee dependency on SVDL

SVDL's projected fees (audit and other assurance) represent 22% of Smart Audit Partners Ltd's firmwide fee income, making it the firm's single largest client, with a three-year renewal under discussion and the MD signalling sensitivity to any fee increase. This creates a significant self-interest threat - the firm may become unwilling to raise difficult issues, propose adjustments, or risk losing the relationship, for fear of losing a disproportionately large share of its income. The IESBA Code requires firms to apply safeguards when total fees from one client represent a large proportion of total fees (commonly discussed around a 15% threshold, with closer scrutiny above that level); appropriate safeguards include an engagement quality control review or an independent, pre- or post-issuance review by a partner or reviewer not involved in the engagement, disclosure of the fee dependency to those charged with governance, and, if the threat cannot be reduced to an acceptable level, declining to continue as the appointed engagement partner or firm.

4. Provision of non-assurance services (drafting the financial statements, warranty provisioning methodology, and revenue recognition advice)

SVDL has asked the firm to draft its IFRS-compliant financial statements and to determine the methodology for a highly judgemental warranty provision and for revenue recognition on bundled products - matters that will subsequently be subject to the firm's own audit. This is a classic and significant self-review threat: the audit team would, in effect, be auditing figures and judgements that its own firm produced. The usual safeguard for such services (management taking informed responsibility for, and understanding, the work performed by the auditor, and reviewing and approving it) is not credible here, because management has explicitly cited a 'time constraint and unfamiliarity

with new guidance' and proposes only to 'review and sign off' the firm's drafts without demonstrating genuine understanding. Where management lacks the ability to take informed responsibility, the self-review threat cannot be reduced to an acceptable level through the usual safeguards, and the firm should decline to provide these non-assurance services (or, if it does provide them, ensure they are performed by a completely separate team from the audit engagement team, with the audit team then subjecting the resulting figures to full, independent audit testing rather than an abbreviated review).

Overall conclusion

These threats do not operate in isolation: the family relationship likely explains the lack of challenge over Kelly's accounting judgements; the fee dependency and gifts create pressure not to raise issues that could upset the relationship; and the non-assurance services mean the firm may effectively be marking its own work. Taken together, these threats are pervasive and, without immediate and robust safeguards (most critically, removing John from the engagement and declining the drafting/advisory work), the independence and objectivity of the entire audit is called into serious question - which is consistent with what was, in fact, subsequently discovered (undetected misappropriation and inventory shortfalls).

(b) Quality control deficiencies and consequences for the reliability of the audit opinion (12 Marks)

Quality control deficiencies

Inadequate direction and supervision: John, the Audit Manager, was simultaneously managing two other demanding engagements and delegated the entire day-to-day management of SVDL's fieldwork to a senior auditor who lacked adequate experience of complex electronic wholesale entities. This breaches the direction, supervision and review requirements of ISA 220 (engagement performance) - engagement teams must be assigned appropriate capabilities and sufficient time, and more experienced team members must adequately direct and supervise less experienced ones, particularly in a complex, first-year audit.

Unjustified departure from required procedures: due to workload pressure, the inexperienced senior auditor chose not to send external confirmation letters to debtors with material year-end balances, and this was not escalated to, or overridden by, the manager or partner. External confirmation of receivables is a key source of evidence for the existence assertion, and departing from it without adequate justification or an equally effective alternative procedure (as contemplated by ISA 505) - and without any evidence this was even discussed with a supervisor - is a serious quality control failure. This omission directly correlates with the fraud subsequently discovered (the Finance Manager delaying recording of cash collected from clients), which external confirmations may well have detected.

Inappropriate assignment of the legal/regulatory compliance review: a junior auditor, rather than an appropriately experienced team member, was assigned to review SVDL's compliance with its import-licence reporting obligations, and as a result the licence was never actually reviewed, leaving no evidence of compliance with the import regulations. This reflects poor assignment of team members to tasks commensurate with their competence, and a failure of supervisory review to identify that this significant compliance area had simply not been addressed (relevant to ISA 250, Consideration of Laws and Regulations).

Ineffective review of working papers: working papers prepared by junior auditors and containing transactions without tick marks (i.e. with no evidence that the underlying work had actually been performed/agreed) were signed off by both the senior auditor and the audit manager without query. This

suggests the review process was perfunctory rather than substantive - reviewers signed off without genuinely assessing whether sufficient appropriate evidence had been obtained and documented, a direct breach of the documentation and review requirements of ISA 230 and ISA 220.

Consequences for the reliability of the audit opinion

Collectively, these deficiencies mean that sufficient appropriate audit evidence was not obtained on several material matters - the existence of receivables was not independently corroborated, compliance with a significant regulatory reporting obligation was never actually assessed, and working papers were signed off without genuine review. Audit risk was therefore not reduced to an acceptably low level, and the unqualified/unmodified opinion subsequently issued was not adequately supported by evidence. This is significant because the bank extended a substantial short-term facility in reliance on SVDL's audited financial statements, and subsequently suffered a loss when the misappropriation and unreconciled inventory came to light - exposing Smart Audit Partners Ltd to a real risk of professional negligence claims from a third party that is likely to have been a known or intended user of the audit opinion, as well as regulatory action (e.g. an ICPAR practice review or disciplinary sanction) and serious reputational damage. The firm's quality management system (per ISQM 1) itself requires urgent remediation, including a root-cause analysis of how these failures occurred and whether similar issues exist on other engagements supervised by the same manager and senior auditor.

QUESTION FOUR
MARKING GUIDE

Sub-question	Marking Details (per valid point)	Marks
(a)	Identifies and explains the measurement uncertainty of biological assets (flowers and fish stock) under IAS 41 fair value less costs to sell, given the lack of an active market and the complexity of the valuation.	2
	Identifies and explains the existence/completeness risk arising from remote, multiple sites and non-aligned seasonal cycles complicating physical verification/biomass estimation.	2
	Identifies and explains the risk relating to harvested produce inventory - correct transition from IAS 41 fair value at harvest to subsequent IAS 2 measurement, and perishability/NRV risk.	2
	Identifies and explains the risk relating to the government grant - premature/incorrect recognition timing or classification under IAS 20 - noting the disproportionate 67% increase in the grant versus ~19.5% revenue growth as an unusual trend warranting scrutiny.	2
	Identifies and explains the first-year audit risk arising from the absence of audited comparative opening balances.	1
	Sub-total - part ((a))	9
(b)	Designs procedures addressing existence/completeness of biological assets (e.g. physical attendance, use of an expert for biomass/valuation estimation), linked to the relevant assertion.	1.5

Sub-question	Marking Details (per valid point)	Marks
	Designs procedures addressing valuation of biological assets and harvested produce (evaluation of the fair value model/assumptions; NRV testing), linked to the relevant assertion.	1.5
	Designs procedures addressing cut-off around the flower-cutting/fish-harvest dates, linked to the cut-off assertion.	1.5
	Designs procedures addressing the government grant (existence, rights and obligations, recognition timing), linked to the relevant assertion.	1.5
	Sub-total - part ((b))	6
(c)	Discusses matters to consider regarding Kampala Assurance CPAs as component auditor: competence, independence, applicable standards, significance of the component, and group audit instructions (1 mark per valid matter, max 3).	3
	Describes procedures required to consolidate the Ugandan subsidiary: GAAP/IFRS adjustment, functional currency confirmation, translation per IAS 21, and elimination of intra-group balances (1 mark per valid procedure, max 3).	3
	Sub-total - part ((c))	6
(d)	Current year: explains that the existing in-house internal audit function should be assessed under the ISA 610 criteria (objectivity, competence, systematic approach) without assuming problems purely because of the planned outsourcing, while remaining alert to morale/quality effects.	2
	Following year: explains that the new outsourced provider's objectivity, competence and independence must be reassessed afresh, and that the audit strategy must address transition/continuity risk.	2
	Sub-total - part ((d))	4
	Total Marks for Question Four	25

MODEL ANSWER

(a) Specific audit risks - biological assets, harvested produce inventory, and government grant (9 Marks)

Measurement uncertainty of biological assets: under IAS 41, both the growing flowers and the fish stock must be measured at fair value less costs to sell, with changes recognised in profit or loss. Neither has a readily observable active market price at the reporting date (unlike, say, a listed commodity), so fair value must be estimated using valuation techniques involving significant judgement (expected future selling prices, growth/maturity stage, mortality rates for fish, discount rates) - a high risk of material misstatement due to estimation uncertainty and potential management bias, particularly in a first-year audit with no established track record for the auditor to benchmark against.

Existence and completeness risk arising from operational complexity: flower cultivation and fish farming operate on seasonal cycles that do not align with each other, across multiple remote sites, making physical verification difficult. Fish stock in particular cannot be counted precisely (it is estimated using biomass/sampling techniques), creating a risk that quantities (and hence values) are overstated or understated, and that year-end cut-off between the two biological cycles is not properly aligned.

Harvested produce inventory - transition and perishability risk: IAS 41 requires harvested produce to be initially measured at fair value less costs to sell at the point of harvest, which then becomes its 'cost' for subsequent measurement under IAS 2 (lower of this amount and NRV). There is a risk that management does not correctly apply this two-stage measurement, and, given the perishable nature of cut flowers, that harvested stock held near the year end is not written down to NRV where quality has deteriorated or export contracts have fallen through.

Government export-promotion grant: the grant has increased from FRW 180,000 thousand to FRW 300,000 thousand (a 67% increase), disproportionate to the growth in export sales revenue (FRW 4,100,000 thousand to FRW 4,900,000 thousand, approximately 19.5%) - this unusual trend warrants specific audit attention. There is a risk under IAS 20 that the grant has been recognised prematurely (before the attaching conditions have actually been met), recognised using an inappropriate model (income vs capital approach) or timing basis (not matched to the related costs/expenditure it is intended to compensate), or that conditions attached to the grant that could give rise to a repayment obligation have not been properly assessed or disclosed.

First-year audit risk: as this is MAEL's first statutory audit, there are no audited comparative opening balances for the biological assets, inventory or grant, increasing the risk that opening balance misstatements (which the auditor has less ability to corroborate through prior-year audit evidence) flow through into the current year's results (relevant to ISA 510).

(b) Substantive audit procedures linked to assertions (6 Marks)

Existence/Completeness: attend physical inspection of the greenhouses and fish ponds, timed as closely as possible to the year end (co-ordinating for the non-aligned harvest cycles), and, given the impracticality of a precise fish count, engage or evaluate the work of an aquaculture/valuation specialist to assess the reasonableness of biomass estimation techniques used by management.

Valuation: evaluate management's fair value model and key assumptions for the growing flowers and fish stock (growth stage, expected yield, expected export selling prices, mortality/loss rates, discount rates where applicable) against external evidence such as recent export contract prices and industry data, involving an auditor's expert where necessary given the specialised nature of aquaculture and floriculture valuation.

Valuation of harvested produce inventory: test that fair value less costs to sell was correctly determined at the point of harvest, and that this amount was then correctly compared to NRV for subsequent measurement, giving particular attention to slow-moving or aged flower stock close to the year end given its perishability.

Cut-off: test a sample of transactions around the flower-cutting and fish-harvesting dates closest to year end to confirm biological assets, harvested produce and related revenue/cost of sales are recorded in the correct period.

Government grant - Rights and Obligations/Occurrence: obtain the grant agreement/approval documentation, confirm the conditions attached were met at the year end, recompute the amount recognised in the period against the systematic basis required by IAS 20, and agree cash receipt to bank statements; consider whether unmet conditions give rise to a repayment contingency requiring disclosure or provision.

Perform analytical procedures comparing biological asset movements and yields (e.g. output per hectare/per pond) year-on-year and to industry benchmarks, and obtain written representations from management on the key estimation judgements underlying the fair value measurements.

(c) Work of Kampala Assurance CPAs and consolidation of the Ugandan subsidiary (6 Marks)
Matters to consider regarding the component auditor (ISA 600, Revised)
Evaluate Kampala Assurance CPAs' professional competence, objectivity and independence, and their understanding of the auditing standards and ethical requirements that apply for purposes of the group audit (which may differ from those applied for their local statutory audit under Uganda's SME framework).

Assess the financial significance of Rweru Fish Exports (U) Ltd to the group financial statements to determine the level of involvement required in the component audit - this may range from reviewing the component auditor's working papers to performing the group auditor's own procedures on specific balances.
Issue clear group audit instructions to Kampala Assurance CPAs specifying group materiality (and component materiality), identified significant risks relevant to the component, reporting deadlines, and the specific evidence/working papers required to be made available to Solid Trust Associates.

As this is the first year of the group audit, Solid Trust Associates cannot rely on any prior history of interaction with Kampala Assurance CPAs, and should consider a higher level of direct involvement (e.g. attending closing meetings, visiting the component, or reviewing detailed component working papers) than might be appropriate in a later year, and must document its own evaluation of the sufficiency and appropriateness of the component auditor's work rather than relying on it uncritically.

Procedures to consolidate the Ugandan subsidiary
- ✓ Obtain Rweru Fish Exports (U) Ltd's financial statements as prepared under Uganda's SME reporting framework, and test the GAAP adjustments made to align them with the group's IFRS accounting policies (e.g. differences in the recognition and measurement of biological assets, revenue or provisions between the local framework and IFRS).
- ✓ Confirm management's determination that UGX is indeed the subsidiary's functional currency, by testing this against the indicators in IAS 21 (primary economic environment in which the entity operates).
- ✓ Translate the IFRS-adjusted UGX financial statements into the group's FRW presentation currency in accordance with IAS 21: assets and liabilities at the closing rate, income and expenses at the actual or average rate for the period, with the resulting exchange difference recognised in other

comprehensive income (foreign currency translation reserve); test the exchange rates used against reliable external sources (e.g. central bank rates).

- ✓ Test the elimination of any intra-group transactions and balances between Rweru Fish Exports (U) Ltd and the rest of the MAEL group (e.g. intercompany sales, loans, unrealised profits), and review the consolidation worksheet and adjusting/translation journal entries for completeness and mathematical accuracy.

(d) Effect of the planned 2027 outsourcing of internal audit on reliance (4 Marks)

For the current year's audit, MAEL's internal audit function remains in-house, and Solid Trust Associates should evaluate the current function on its own merits against the criteria in ISA 610 (its objectivity, level of competence, and whether it applies a systematic and disciplined approach), without assuming problems purely because outsourcing is planned for 2027. That said, the engagement team should remain alert to the possibility that anticipated outsourcing could affect staff motivation, retention or diligence in the function's final year, and should corroborate, rather than simply accept, the current internal audit team's work where this is a concern.

For the following year's audit strategy, once internal audit is outsourced, the group engagement team cannot simply carry forward its prior conclusions on reliance - it must reassess, afresh, the new external provider's objectivity (including independence from both management and from Solid Trust Associates' own network, to avoid a self-review or independence conflict if any common ownership or affiliation exists), competence, and the scope and terms of the outsourcing arrangement. The audit strategy for that year should also specifically consider transition risk - the possibility of gaps in monitoring or control continuity during the changeover from an in-house to an outsourced function, particularly given the entity's already limited specialist aquaculture skills - and should be planned on the basis that Solid Trust Associates retains sole responsibility for the audit opinion regardless of the extent of reliance placed on any internal audit work, whether in-house or outsourced.