CERTIFIED PUBLIC ACCOUNTANT

STRATEGIC LEVEL EXAMINATIONS

AA3.1 ADVANCED AUDIT AND ASSURANCE

DATE: WEDNESDAY, 26 AUGUST 2026

MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE

Marking guide

Subquestion	Details (basis of mark allocation)	Total Marks
a)(i)	1 mark for identification and explanation of each risk of material misstatement (max 5 marks) + 1 mark for a matching, specific auditor response to each risk (max 5 marks). Credit any other well-argued risk drawn from the scenario (e.g. seasonality/cut-off, related party purchasing, going-concern-related risk) provided it is not also credited under part (c).	10
a)(ii)	1 mark for a correctly computed materiality benchmark (workings shown) using an appropriate base (e.g. profit before tax or revenue). 1 mark for a reasoned justification of the benchmark chosen, having regard to KEAL's circumstances (profit volatility, going concern pressure, stakeholders).	2
b)(i)	1 mark for each relevant substantive procedure addressing existence and/or valuation of inventory following the fire (max 6). Procedures must be specific to the scenario (not generic).	6
b)(ii)	1 mark for each relevant substantive procedure over the Rift Valley Hardware Supplies related party arrangement (max 4).	4
b)(iii)	1 mark for each distinct, relevant explanation of how a CAAT could be used to interrogate SmartStock data (max 4).	4
c)(i)	1 mark for each going concern indicator properly evaluated/explained by reference to the scenario (max 5).	5
c)(ii)	Up to 3 marks for discussion of the auditor's ISA 560 responsibilities (pre- and post-report-date duties, adjusting vs non-adjusting events). Up to 3 marks for application to the fire and the customer administration, and the resulting effect on the earliest date the report can be signed.	6
c)(iii)	1 mark for each relevant, specific matter for written representation relating to the fire and/or the customer administration (max 3).	3
d)(i)	Up to 4 marks: inventory impairment non-recognition - materiality assessment + type of opinion (qualified) + justification. Up to 3 marks: inadequate going concern disclosure - materiality/pervasiveness assessment + type of opinion (qualified or adverse) + justification.	7
d)(ii)	1 mark for identifying a suitable Key Audit Matter with justification of significance.	3

Subquestion	Details (basis of mark allocation)	Total Marks
	2 marks for outlining how it should be described in the auditor's report (nature/why significant + how addressed by the audit).	
TOTAL QUESTION ONE		50

DETAILED MODEL ANSWER

(a)(i) Five risks of material misstatement and the auditor's planned response

Risk 1: Foreign currency exposure and unhedged US dollar purchases
Approximately 70% of KEAL's purchases are denominated in US dollars and the company does not hedge this exposure. The Rwandan franc depreciated by approximately 9% against the US dollar during 2025. There is a risk that: (i) cost of sales, inventory and trade payables denominated in USD are not translated at the appropriate exchange rates at the transaction date and at year end (IAS 21); and (ii) the FRW 340 million net foreign exchange loss (2024: FRW 95 million) is understated or misclassified, given the scale of the currency movement and the volume of imports.

Auditor's response: Obtain a schedule of foreign-currency denominated payables and inventory purchases; agree the exchange rates used at initial recognition to independent rate sources (e.g. National Bank of Rwanda rates) for a sample of transactions; recompute the retranslation of year-end USD-denominated payables and recompute the resulting exchange gain/loss for agreement to the FRW 340 million recognised; and perform analytical procedures comparing the exchange loss recognised to the expected loss implied by the 9% depreciation and the level of USD exposure, investigating any significant variance.

Risk 2: Revenue recognition and cut-off around the new KEAL Direct online channel
KEAL Direct, launched during 2025, represented 18% of retail revenue by December and is fulfilled from the same warehouses as showroom stock, while returns from online customers are processed through a separate, less well-controlled goods-returned area. Combined with the fact that 40% of annual revenue is earned in the final quarter, there is a risk that revenue is recognised prematurely (before delivery/acceptance) around the year end, and that online sales returns are incompletely recorded or improperly matched against previously recognised revenue, overstating net revenue and receivables.

Auditor's response: Test controls (or, if unreliable, perform extended substantive testing) over the online goods-returned area, including tracing a sample of online returns processed shortly before and after the year end to credit notes and the sales ledger; perform detailed cut-off testing on a sample of despatch notes (showroom and online) around 31 December 2025, agreeing recognition to the transfer of control; and review post year-end credit notes/returns for evidence of revenue recognised in 2025 that was subsequently reversed.

Risk 3: Existence and valuation of inventory arising from the new SmartStock system
SmartStock went live on 1 October 2025 without a parallel run, reconciliations between SmartStock and the general ledger perpetual inventory account have not been performed for Q4 2025, user-access controls are weak (shared generic logins, no periodic access review), an untested vendor patch was applied directly to the

live system in mid-December, and a cycle count in October revealed an unresolved 5% variance for mobile accessories. These control weaknesses give rise to a significant risk that recorded inventory quantities (existence) and, consequently, inventory valuation in the financial statements are misstated.

Auditor's response: Treat inventory as a significant risk area and plan increased substantive testing rather than relying on system controls; reconcile SmartStock quantities to the general ledger and to physical count results for all three warehouses at the year-end count, investigating all significant variances (including the unresolved 5% mobile-accessories variance); use CAATs to analyse the full population of Q4 SmartStock transactions for unusual patterns (see (b)(iii) below); and increase the extent of year-end inventory count observation and test counts given the absence of reliable perpetual records.

Risk 4: Related party purchasing arrangement with Rift Valley Hardware Supplies Ltd
Rift Valley Hardware Supplies Ltd, wholly owned by the Managing Director's brother, supplied 19% of KEAL's purchases (2024: 14%) at prices averaging 8% above other suppliers and on materially longer credit terms (120 days vs 45 days), and the arrangement has never been disclosed to, or approved by, the non-executive investor director, nor separately disclosed as a related party transaction in the draft financial statements. There is a risk of incomplete/inaccurate related party disclosure under IAS 24, of cost of sales being overstated (goods paid for above market price), and of management override of controls given the MD's influence over the arrangement.

Auditor's response: Obtain and review board minutes, the register of related parties, and correspondence to confirm the nature and extent of the relationship and Mr Eric Kagame's consultancy role; compare prices paid to Rift Valley Hardware Supplies against prices for comparable goods from other suppliers to quantify the premium; confirm the year-end payable balance directly with Rift Valley Hardware Supplies; and obtain written representations from management and, if practicable, from the non-executive director, on the completeness of related party disclosures.

Risk 5: Management override of controls / bias in accounting estimates and judgements
KEAL is closely held by two family members holding a combined 80% and controlling executive roles (MD and Finance Director), creating an opportunity for management override. This risk is heightened by pressure to maintain reported performance in the face of a bank covenant breach and by the continued payment of a large dividend (FRW 900 million) despite negative operating cash flow, both of which create an incentive to present a more favourable financial position (e.g. through inventory valuation, the extent of impairment recognised, or the completeness of related party and going concern disclosures).

Auditor's response: Maintain heightened professional scepticism throughout the engagement; perform unpredictable/additional procedures such as testing journal entries and other adjustments made in preparing the financial statements, with particular attention to entries made close to the year-end or by senior management; review accounting estimates for bias, including inventory valuation and the assessment of the trade receivable from Kigali Retail Chains Ltd; and evaluate the business rationale for any significant unusual transactions identified.

Risk 6: Possible overstatement of inventory valuation resulting from obsolescence: KEAL's principal competitors are increasingly sourcing inventory directly from regional e-commerce networks, placing compression pressure on

KEAL's gross profit margins for high volume lines like mobile handsets and kitchen appliances. Under IAS 2 (Inventories), inventory lines must be written down to their Net Realizable Value (NRV) if costs exceed estimated selling prices less sales costs. Given the margin compression and rising stock values (increasing from Frw 5,100 million to Frw 6,800 million), there is a high risk that slow moving electronic models are carried above their recoverable NRV.

Auditor's Response: Extract an automated inventory aging report from the stock system to isolate slow moving, high-volume lines like mobile handsets. Compare the historical unit cost of a sample of these items against their post-year-end actual showroom and online sales invoices to verify that the carrying asset values do not exceed their net realizable value.

Risk 7: Unauthorized Software Customizations and Data Corruption Risk: In mid-December, a technical vendor pushed a software patch directly to the live Smart Stock production environment to address barcode scanning issues, completely bypassing formal system testing, validation scripts, or management sign-offs. Unvalidated code modifications introduced directly into a live environment create a high risk of systemic database corruption, erroneous inventory tracking quantities, or accidental deletion of dispatch fields during the busiest trading quarter of the year.

Auditor's Response: Utilize data interrogation software to isolate all system adjustments and stock entries processed subsquent to the mid-December software patch. Select a targeted sample of dispatches and receipts processed under the patched system code and manually match them against physical delivery notes signed by customers or suppliers to ensure system data integrity.

(a)(ii) Preliminary materiality benchmark and justification

KEAL is a profit-oriented trading company, so profit before tax (PBT) and revenue are the most commonly used benchmarks:
- 5% of PBT: 5% × FRW 3,130 million = approximately FRW 157 million (a typical range of 5%–10% of PBT gives FRW 157 million to FRW 313 million).
- 0.5%–1% of revenue: 0.5% × FRW 42,600 million = FRW 213 million; 1% × FRW 42,600 million = FRW 426 million.

Recommendation: the audit team should adopt revenue as the primary benchmark, at a point toward the lower end of the range (e.g. approximately 0.5% of revenue, c. FRW 213 million), rather than PBT, for the following reasons: (i) PBT, although it has grown year-on-year, is subject to significant volatility from items outside the entity's core trading performance (the unhedged foreign exchange loss and rising finance costs on a breached loan covenant), making it a less stable benchmark this year; (ii) KEAL's principal stakeholders - the family shareholders, the bank under the covenant, and the non-executive investor director - are also focused on the entity's scale of trading and its balance sheet strength, which revenue better reflects on a year with unusual P&L volatility; and (iii) given the going-concern pressures identified in part (c), a somewhat more conservative (lower) materiality level than a pure PBT-based calculation would produce is appropriate to increase the likelihood that misstatements relevant to users' going concern assessment are identified. Performance materiality should then be set at a percentage (e.g. 65%–75%) of this figure, having regard to the assessed control weaknesses over inventory and the number of related party and estimate-based risk areas identified.

(b)(i) Six substantive procedures over existence and valuation of inventory following the Kicukiro fire

1. Physical count evidence: Obtain and review the results of the year-end (31 December 2025) physical inventory count for the Kicukiro warehouse (performed before the fire) and agree quantities and locations to the count sheets; to confirm the inventory existed and was correctly quantified as at the reporting date.

2. Roll-forward/roll-back testing: Perform a roll-forward from the last physical count date to 31 December 2025 (or roll-back from the fire date to 31 December 2025), testing intervening receipts, transfers and despatches recorded in SmartStock for the Kicukiro warehouse, given the absence of Q4 reconciliations between SmartStock and the general ledger.

3. Reconciliation: Reconcile the SmartStock inventory records for Kicukiro to the general ledger perpetual inventory account and to the physical count, investigating the causes of the unresolved 5% mobile-accessories variance identified in the October cycle count and any similar variances for other product lines.

4. Valuation/cost verification: Agree the FRW 2,380 million carrying amount of the destroyed inventory to underlying purchase invoices/cost records and recompute that it was carried at the lower of cost and net realisable value at 31 December 2025, to establish the correct amount of any loss.

5. Subsequent event classification: Assess whether the fire is a non-adjusting event under IAS 10 (loss of an asset that existed at the year end, caused by an event - the fire - after the year end) or whether there is evidence the inventory was already impaired/misappropriated at 31 December 2025 (e.g. due to the unresolved SmartStock variance), which would instead require an adjustment to the 2025 financial statements.

6. Insurance recoverability: Obtain and review correspondence with the insurer and the forensic assessor's preliminary findings (overloaded circuit, unapproved cold-storage installation, sprinkler system out of service since mid-November - a possible breach of the fire-safety warranty) to assess whether, and to what extent, any insurance recovery should be recognised as a receivable (only if virtually certain) or disclosed as a contingent asset, and evaluate the adequacy of related disclosures.

7. Verication of fire damaged inventory disclosure: Recalculate the cost of the fire-damaged stock (Frw 2,380 million) against the total inventory balance to verify that the mathematical exposure of 35% is accurately split and represented in the post-balance-sheet disclosure notes.

(b)(ii) Four substantive procedures over the Rift Valley Hardware Supplies purchasing arrangement

1. Pricing comparison: Compare prices charged by Rift Valley Hardware Supplies for galvanised roofing sheets against prices charged by KEAL's other suppliers for comparable goods (and, where available, external market quotations), to substantiate and quantify the reported 8% premium and assess the commercial rationale for continuing to source exclusively from this supplier.

2. Confirmation of balances and terms: Circularise Rift Valley Hardware Supplies directly to confirm the year-end trade payable balance and the credit terms (120 days), and inspect the underlying supply agreement/purchase orders to corroborate the terms disclosed in the scenario.

3. Disclosure completeness: Review board minutes, the related-party register and Mr Eric Kagame's consultancy contract to assess whether the relationship, the consultancy arrangement, and the purchasing transactions have been completely and accurately disclosed as related party transactions in accordance with IAS 24, and obtain written representations from management on completeness of related party disclosures.

4. Authorisation and governance: Evaluate whether the arrangement was properly authorised, noting that it has never been formally disclosed to or approved by the non-executive investor director; assess the impact of this governance gap on the risk of management override and on the completeness of disclosures, and consider the need to communicate the matter to those charged with governance.

(b)(iii) Four ways CAATs could be used to interrogate SmartStock data since 1 October 2025

1. Full-population reconciliation: Use audit software (e.g. IDEA/ACL) to extract the complete population of SmartStock goods-received, transfer and despatch transactions since go-live and reconcile total movements to the general ledger perpetual inventory account, quantifying the unreconciled Q4 variance across all product categories rather than relying on a sample.

2. User-access and login analysis: Analyse system logs to identify instances of the shared generic shift login being used, and to flag transactions processed outside normal working patterns or by unauthorised users, given the absence of periodic access-rights reviews since go-live.

3. Variance and trend analysis: Recompute cycle-count-type variances (such as the 5% mobile-accessories variance) across the entire population by warehouse, product category and period, and analyse whether variances cluster around the date of the untested mid-December vendor patch (suggesting a system error) or are spread more randomly (which would point more toward loss or theft).

4. Gap and duplicate testing: Perform gap and duplicate tests on transaction/document numbers within SmartStock (goods-received notes, transfer notes, despatch notes) to identify missing, duplicated, or out-of-sequence records that may indicate incomplete recording or manipulation of inventory movements.

(c)(i) Five going concern indicators

1. Breach of bank loan covenants: Both covenants on the FRW 9,200 million long-term loan are breached at 31 December 2025 (net debt/EBITDA 3.4x against a 3.0x limit; current ratio 1.05x against a 1.2x minimum), giving the bank a contractual right to demand immediate repayment; KEAL's cash and bank balance of only FRW 610 million (and an overdraft of FRW 1,150 million) indicates it could not meet such a demand without refinancing or a waiver.

2. Deteriorating operating cash flow combined with continued high dividends: Net cash outflow from operating activities of FRW 410 million (2024: inflow of FRW 1,180 million), driven by rising inventory and slower supplier payment, occurred in the same year that KEAL paid dividends of FRW 900 million (2024: FRW 650 million) - indicating cash is being distributed to shareholders despite a weakening underlying cash position.

3. Loss of the Kicukiro warehouse and uncertain insurance recovery: The fire destroyed inventory carried at FRW 2,380 million (35% of year-end inventory by value) and the insurer has not confirmed whether, or to what extent, the claim will be honoured, given a possible breach of the fire-safety warranty - creating both a trading disruption (loss of a distribution point ahead of restocking) and a potential unrecoverable loss at a time of already strained liquidity.

4. Credit risk concentration among wholesale customers: Kigali Retail Chains Ltd, owing FRW 850 million, entered administration on 15 February 2026 with unsecured creditors expected to recover less than 20%, and only 30% of the balance is credit-insured; two other wholesale customers in the same sub-sector show similar signs of distress, indicating a broader risk to future cash collections in the wholesale division.

5. Margin compression and unhedged currency exposure in a competitive market: Competitors sourcing directly from regional e-commerce platforms are compressing KEAL's margins on high-volume lines, while 70% of purchases remain unhedged against a depreciating Rwandan franc - both factors increase uncertainty over KEAL's ability to sustain profitability and cash generation to service its obligations.

(c)(ii) ISA 560 responsibilities for subsequent events and effect on the date the report may be signed

ISA 560 distinguishes two periods. Between the date of the financial statements (31 December 2025) and the date of the auditor's report, the auditor has an active responsibility to perform procedures designed to obtain sufficient appropriate evidence that all events requiring adjustment or disclosure have been identified - for example, reviewing management's own procedures for identifying subsequent events, reading minutes of post year-end meetings, reviewing the latest available management accounts, and making enquiries of management. After the date of the auditor's report but before the financial statements are issued, the auditor has no obligation to perform further procedures, but if a fact becomes known that might have caused the report to be modified, the auditor must discuss it with management and take appropriate action, which may include amending the report.

As at 20 February 2026, the auditor's report has not yet been signed, so both the warehouse fire (22 January 2026) and the administration of Kigali Retail Chains Ltd (15 February 2026) fall within the first, actively-monitored period and must be investigated before the report can be signed:

- **The warehouse fire** is, on the facts presented, a non-adjusting event under IAS 10 - the loss of an asset arose from a fire occurring after the reporting date, and does not of itself indicate that the destroyed inventory was misstated at 31 December 2025 (unless further evidence, such as the unresolved SmartStock variance, suggests otherwise). It therefore requires adequate disclosure of the nature and estimated financial effect of the event (and of the uncertain insurance recovery), rather than an adjustment to the 2025 figures, subject to the work in (b)(i).
- **The administration of Kigali Retail Chains Ltd** is more likely to be an adjusting event: the customer had already been experiencing cash-flow difficulty and missing payments in the second half of 2025, so its formal administration in February 2026 provides additional evidence of conditions that existed at 31 December 2025 (the receivable was already impaired in substance). The auditor should therefore require management to recognise an appropriate impairment allowance against the FRW 850 million receivable (net of the 30% credit-insured portion) in the 2025 financial statements, rather than merely disclosing the matter.

Because both events require further audit work (on the fire disclosure/insurance recoverability, and on the receivable impairment) and management action before the financial statements can be considered free from material misstatement, the auditor's report cannot be signed until: (i) sufficient appropriate evidence has been obtained on both matters; and (ii) management has appropriately adjusted (for the receivable) and disclosed (for the fire) the financial statements. The report date should therefore be no earlier than the date on which the last of these matters is resolved to the auditor's satisfaction - i.e. it should be dated after 20 February 2026, once this additional work is complete, and not backdated to an earlier point in the audit.

(c)(iii) Three matters for written representations

1. Fire and inventory: Confirmation from management of the carrying amount of the inventory destroyed in the fire, that no indication existed that this inventory was impaired for reasons unrelated to the fire at 31 December 2025, and of management's assessment of, and intended accounting/disclosure for, the fire as a subsequent event, including the expected extent of insurance recovery.

2. Kigali Retail Chains Ltd receivable: Confirmation of management's assessment of the recoverability of the FRW 850 million receivable in light of the customer's administration, and their acknowledgement of the need to reflect the customer's known financial difficulty as an adjusting event in the 2025 financial statements.

3. Going concern: Confirmation of management's assessment of KEAL's ability to continue as a going concern, having regard to the covenant breaches, the fire, and the customer administration, and confirmation that all subsequent events known to management up to the date of the auditor's report have been disclosed to the audit team.

(d)(i) Effect of the two unresolved matters on the auditor's report

Matter 1: Directors' refusal to recognise impairment of the fire-damaged inventory

This is a disagreement with management over the application of accounting standards (failure to write down/derecognise inventory that is no longer recoverable following the fire) and results in a material misstatement of the financial statements. At FRW 2,380 million, the amount represents approximately 76% of profit before tax and around 21% of total equity - clearly material. However, the matter is confined to a specific, identifiable element of the financial statements (inventory and the related loss) and can be quantified and isolated; it does not undermine the reliability of the financial statements as a whole. This points to a material but not pervasive misstatement, and the auditor should express a qualified ("except for") opinion under ISA 705 (Revised), with a Basis for Qualified Opinion paragraph quantifying the effect on inventory, profit and equity.

Matter 2: Reluctance to provide adequate disclosure of the going concern uncertainty

Here the going concern basis of preparation is not itself disputed, but management is reluctant to adequately disclose the material uncertainty arising from the loan covenant breach (and the other indicators identified in (c)(i)). Under ISA 570 (Revised), if the auditor concludes that disclosure of a material uncertainty is

inadequate, this is treated as a material misstatement of the financial statements and the auditor should express a qualified or adverse opinion (not simply add an emphasis-of-matter type paragraph). Given the combination of factors - a covenant breach giving the bank an immediate contractual right to demand repayment, a severe deterioration in liquidity, the fire, and the loss of a major customer - the going concern doubt is significant and pervasive to a user's overall understanding of the financial statements as a whole, rather than confined to one line item. If, having discussed the matter with management, adequate disclosure is still not provided, an adverse opinion would be the more appropriate response, on the basis that the omission is both material and pervasive; if the auditor judges the omission to be material but capable of being isolated (e.g. limited to inadequate wording in a single note), a qualified opinion would instead suffice. On the facts as presented (multiple compounding indicators), **an adverse opinion is the better-supported conclusion**.

Where both matters are unresolved simultaneously, the auditor's report would include two separate Basis for Qualified/Adverse Opinion paragraphs (one for each matter), and the overall opinion given would need to reflect the more severe modification required (i.e. if the going concern disclosure matter alone warrants an adverse opinion, that opinion would govern the report as a whole, since an entity cannot be both "qualified" and "adverse" - the auditor expresses a single overall opinion reflecting the most severe conclusion reached).

(d)(ii) One Key Audit Matter and how it should be described

Key Audit Matter identified: Existence and valuation of inventory in the context of the implementation of the new SmartStock warehouse management system.

This is a suitable KAM because it involved significant auditor attention arising from a significant risk (ISA 315 (Revised 2019)) and reflects the implementation of a new IT system with a direct and pervasive effect on a material financial statement balance - both are matters the workbook's guidance specifically identifies as typical of key audit matters. The absence of a parallel run, unreconciled Q4 records, weak access controls, an untested vendor patch, and an unresolved cycle-count variance made this an area of high estimation and existence uncertainty requiring extensive audit effort across all three warehouses (not only the destroyed Kicukiro warehouse, which is separately the subject of the qualified opinion in (d)(i)).

In the auditor's report, the KAM description should: (a) explain why the matter was considered one of most significance (the new system, the control weaknesses noted, and the scale of inventory affected); and (b) summarise how the audit addressed the matter - cross-referring to procedures such as the full-population reconciliation of SmartStock to the general ledger, extended physical count observation, and the CAAT-based analysis described in (b)(i) and (b)(iii). Where this KAM overlaps with the specific fire-related inventory impairment giving rise to the qualified opinion in (d)(i), the auditor should cross-refer to, rather than repeat, the Basis for Qualified Opinion paragraph. It should also be noted that KEAL is not currently a Public Interest Entity under ICPAR's Circular No. 001/08/19 (it is not listed and is not a regulated financial institution), so communication of KAMs is not mandatory under ISA 701; the firm may nonetheless include this KAM voluntarily, or at the request of those charged with governance, as good reporting practice.

SECTION B

QUESTION TWO

MARKING GUIDE

Subquestion	Details (basis of mark allocation)	Total Marks
a)(i)	2 marks: level of assurance provided by the compilation engagement (none - no verification/opinion, ISRS 4410 (Revised)). 2 marks: level of assurance provided by the AUP engagement (none - factual findings only, ISRS 4400 (Revised)); credit clear distinction between the two reasons for 'no assurance'.	4
a)(ii)	1 mark: form of report for the compilation (compilation report - no opinion/conclusion, states no audit/review performed). 1 mark: form of report for the AUP engagement (report of factual findings, restricted to specified parties, no opinion/conclusion).	2
b)(i)	1 mark for each relevant matter to consider before accepting the forecast examination engagement (max 4).	4
b)(ii)	1 mark for a relevant procedure addressing each of the three assumption categories: rainfall/yield, coffee prices, financing costs (max 3).	3
c)(i)	1 mark for each of the three stages of a forensic investigation, properly applied to the facts of the fertiliser diversion (max 3).	3
c)(ii)	1 mark for each relevant, specific source of evidence identified (max 3).	3
d)(i)	1 mark for each relevant, well-linked performance indicator addressing Alpine Roasters' stated concerns (water, labour, carbon, traceability) (max 4).	4
d)(ii)	1 mark for identifying the appropriate standard/type of engagement (ISAE 3000 (Revised), typically limited assurance). 1 mark for describing the form and content of the assurance statement (scope, criteria, procedures summary, conclusion in negative form, restriction on use).	2
TOTAL		25

(a)(i) Level of assurance provided by each engagement

Compilation engagement: Under ISRS 4410 (Revised), a compilation engagement provides **no assurance** at all. The practitioner uses accounting expertise, as opposed to auditing expertise, to collect, classify and summarise the member delivery and payment information provided by NHCG's management into the annual member accounts. **The practitioner does not verify the accuracy or completeness of the underlying data** (the weighbridge-to-register transcription is not tested) and expresses no opinion or conclusion on whether the accounts are free from material misstatement.

Agreed-upon procedures (AUP) engagement: Under ISRS 4400 (Revised), an AUP engagement is also not an assurance engagement and, like a compilation, **provides no assurance**. However, the reason differs from a compilation: specific procedures are actually performed (**verifying a sample of recorded delivery volumes against weighbridge tickets and payment vouchers)**, but the practitioner does not evaluate the evidence obtained or express an opinion or conclusion on it. Instead, the practitioner simply reports the factual findings of the procedures performed, leaving users (e.g. the board and members) to draw their own conclusions from those findings.

(a)(ii) Form of report for each engagement

Compilation: A compilation report addressed to the board, describing the engagement performed (that the accounts were compiled based on information provided by management), stating clearly that no audit or review was carried out and that no assurance is expressed, and cautioning that the report/accounts should not be relied upon for any purpose other than that for which they were prepared (circulation to members ahead of the AGM).

Agreed-upon procedures: A Report of Factual Findings, listing each agreed procedure performed (e.g. tracing a sample of recorded deliveries at each washing station to weighbridge tickets and payment vouchers) and the factual result of each, with an explicit statement that the engagement is not an audit or review, that no assurance is expressed, and that the report is restricted to the parties who agreed the procedures (the board) and should not be distributed to, or used by, any other party.

(b)(i) Four matters to consider before accepting the forecast examination engagement

1. Competence and resources: Whether the firm has the necessary expertise and resources to examine prospective financial information under ISAE 3400 given the specialised assumptions involved (rainfall patterns, cherry yield per hectare, volatile world coffee prices), and whether external agronomic or market expertise needs to be sourced.

2. Intended users and purpose: The report is intended for a specific third party - the Rwanda Development Bank - for a specific purpose (assessing the FRW 1.2 billion loan application); the engagement letter must clearly restrict the use and distribution of the report and confirm that management, not the practitioner, remains responsible for preparing the forecast.

3. Reasonableness of assumptions and data availability: Whether sufficient objective evidence exists, or can be obtained, to support the key assumptions given their inherent uncertainty (rainfall has been erratic for five seasons and coffee prices have been highly volatile), and whether this makes the engagement unacceptably difficult to conclude on with the required level of evidence.

4. Integrity of management/those charged with governance: Ordinary client acceptance considerations, including the integrity of the Cooperative's board and General Manager, particularly relevant here given the separate, unresolved allegations of fraud within the Cooperative (the fertiliser diversion) which may raise broader questions about the control environment and the reliability of management-prepared information generally.

5. The period covered by the forecast: The practitioner must evaluate whether the period covered by the forcasts is appropriate.

6. Objectivity and Independence: Assess whether the firm is independent vis a vis the client to ensure an objective assurance will be provided.

(b)(ii) Three procedures to evaluate reasonableness of key assumptions (3 marks)

1. Rainfall and yield: Compare the forecast yield-per-hectare assumption against NHCG's own historical yield trends for existing plots and, where available, meteorological/agronomic data or expert reports on rainfall patterns for Southern Province, assessing whether the assumed improvement from the irrigation expansion is reasonable and consistent with the project's stated objective.

2. Coffee prices: Compare the forecast green coffee price assumptions against externally available market data (e.g. international coffee exchange/futures prices) and recent historical prices achieved by NHCG under its Fairtrade agreement with Alpine Roasters, and perform sensitivity analysis to assess the forecast's exposure to price volatility.

3. Financing costs: Recompute the forecast interest and financing charges using the terms indicated for the proposed FRW 1.2 billion loan (rate, repayment profile) and agree these to correspondence/draft terms from the Rwanda Development Bank, checking consistency with the existing equipment loan's terms as a cross-check for reasonableness.

(c)(i) Three stages of a forensic investigation applied to the suspected fraud

1. Initial planning/securing the position: Agree the scope, objectives and legal context of the investigation with the board (including whether NAEB or the police need to be informed), and take immediate steps to secure relevant records - the distribution ledger, signed receipt records and physical fertiliser stock - before Mr Habimana becomes aware of the investigation, to prevent destruction or alteration of evidence.

2. Evidence gathering: Compare the distribution ledger entries and signatures against a sample of members to establish whether allocations were genuine or fictitious; perform (or engage an expert to perform) a detailed physical stock count of fertiliser to substantiate the bookkeeper's preliminary finding of a 30% shortfall;

interview the members whose signatures appear in the ledger to confirm whether they actually received the input; and examine the records of the local agro-input trader for evidence of the diverted fertiliser being resold.

3. Reporting: Prepare a forensic investigation report setting out the scope, methodology, evidence obtained and findings (including a quantification of the estimated loss), in a form capable of supporting disciplinary action, a report to NAEB, and, if required, use in criminal or civil proceedings, ensuring the evidence gathered would withstand scrutiny/cross-examination.

(c)(ii) Three sources of evidence

1. The distribution ledger itself, comparing recorded allocations and signatures for the two distribution cycles in question against members' actual records/recollection.

2. Physical fertiliser stock records and counts at the western station, corroborating the bookkeeper's preliminary reconciliation showing a 30% shortfall against what the ledger implies should be on hand.

3. Third-party evidence: direct enquiry/confirmation with the members named in the ledger as to whether they received the input and whether the signatures are genuine, and records (sales/purchase invoices, bank deposits) of the local agro-input trader alleged to have resold the diverted fertiliser.

(d)(i) Four performance indicators for the sustainability and traceability report

1. Water usage: Water consumption per kilogram/tonne of processed cherry at each washing station (water-use intensity), directly addressing Alpine Roasters stated concern over water usage at the washing stations.

2. Waste management: Proportion of processing waste-water treated or safely disposed of before discharge (e.g. % of pulp/waste-water managed under an approved treatment process), addressing the waste-management element of the requirement.

3. Labour and worker welfare: Indicators such as the proportion of workers/members paid at least a defined minimum/living wage, health and safety incident rates at the washing stations, and absence of child labour on member plots, addressing worker-welfare conditions on plots and at the stations.

4. Carbon footprint and traceability: Greenhouse gas emissions per tonne of green coffee produced and transported to port (covering processing and transport), together with the percentage of cherry deliveries linked to verified GPS geolocation data for the originating plot, directly addressing both the carbon-footprint requirement and the EU deforestation and due diligence regulation's geolocation/traceability requirement.

(d)(ii) Form and content of the independent verification (assurance) statement

The engagement would be performed under ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information, as the subject matter (water usage, labour conditions, carbon footprint, traceability data) is non-financial. Given the practical difficulty and cost of obtaining sufficient

appropriate evidence over qualitative, non-financial indicators of this kind (particularly across geographically dispersed smallholder plots), a **limited assurance** engagement is the more realistic and commonly adopted form, rather than reasonable assurance.

The resulting assurance statement should identify: the subject matter and the criteria used to evaluate it (e.g. an appropriate sustainability reporting framework agreed with Alpine Roasters); NHCG's and the practitioner's respective responsibilities; a summary of the procedures performed; and a conclusion expressed in the negative form appropriate to limited assurance (i.*e. Based on our procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that NHCG's Sustainability and Traceability Report is not prepared, in all material respects, in accordance with the specified reporting criteria."'*), rather than a positive opinion. The statement should be addressed to NHCG's board (and may be shared with Alpine Roasters as the intended user) and should state clearly the criteria and period covered, so that its scope is not confused with a full audit opinion.

QUESTION THREE

MARKING GUIDE

Subquestion	Details (basis of mark allocation)	Total Marks
a)	Up to 2 marks: procurement appointment - threat identification (self-interest/familiarity via engagement partner's brother) + evaluation/safeguard (remove partner from engagement). Up to 2 marks: success-related fee - threat identification (self-interest; contingent fees prohibited for audit) + conclusion (must be declined). Up to 2 marks: costing system design - threat identification (self-review, compounded by using the same audit senior) + evaluation/safeguard. 1 mark: overall reasoned conclusion on whether the firm can continue to act as auditor of USF (yes, subject to specific safeguards).	7
b)	1 mark for each relevant matter to consider before tendering for Kivu Metal Works Ltd (max 4). 1 mark for a reasoned, justified recommendation/decision.	5
c)(i)	Up to 3 marks for a clear, well-applied distinction between management's and the auditor's responsibilities for fraud prevention/detection, applied to the scrap-sales fraud.	3
c)(ii)	Up to 3 marks for a balanced discussion of negligence (duty of care/proximity, breach, causation) applied to Shield Bank's position, with a reasoned conclusion.	3
c)(iii)	1 mark for each relevant, distinct way of limiting exposure to third-party claims (max 3).	3
d)	1 mark: firm-level deficiency (no EQR performed despite meeting the firm's risk criteria) + 1 mark for corresponding recommended policy.	4

Subquestion	Details (basis of mark allocation)	Total Marks
	1 mark: engagement-level deficiency (significant judgement signed off by a first-year trainee with no senior review) + 1 mark for corresponding recommended policy.	
TOTAL		25

DETAILED MODEL ANSWER

(a) Ethical threats and conclusion on continuing to act

Procurement appointment of Jean Bosco:

Jean Bosco, the engagement partner's younger brother, has been appointed procurement manager, with authority directly relevant to material balances the partner's own engagement audits (cost of sales, inventory, trade payables), including authorising scrap write-offs. Although a sibling is "close family" rather than "immediate family" under the International Code of Ethics, a close family member holding a position at the client that allows them to exert direct and significant influence over subject matter the individual auditor is responsible for creates a significant **self-interest and familiarity threat** to the engagement partner's independence and objectivity. Given the direct reporting/influence relationship and the materiality of the balances affected, this threat cannot realistically be reduced to an acceptable level by safeguards while the same individual remains engagement partner.

Conclusion: The engagement partner must be removed from (rotate off) the USF audit; the firm may continue to act as auditor of USF using a different, unconnected engagement partner.
Proposed success-related (contingent) fee

Proposed contingent fee structure : Contingent fees create a significant self-interest threat because the firm's remuneration becomes dependent on an outcome the audit itself may influence (a clean/unmodified opinion supporting the loan renewal), and audit fees must not be contingent in this way. This is prohibited by the International Code of Ethics for audit engagements - there is no safeguard that reduces this threat to an acceptable level.

Conclusion: The firm must decline the proposed contingent fee arrangement; the audit fee should continue to be determined on the basis of the time, skill and responsibility involved, irrespective of the loan outcome.
Request to design and implement the costing system

Designing and implementing a standard costing system that will generate the cost data subsequently used to value work-in-progress and finished goods inventory in the financial statements the firm audits creates a significant **self-review threat**: the firm would, in effect, be auditing figures produced by a system it designed. This threat is materially increased by USF's request that the current audit senior lead the design work, which would compound the self-review threat with a lack of segregation between the individuals performing the

non-audit service and those performing the audit, and would also raise a familiarity/management-involvement concern (the firm effectively taking on a management responsibility for a system feeding material financial statement balances).

Conclusion: The firm should not use the current audit senior (or any member of the audit team) on the costing system design. If the firm proceeds with the non-audit engagement at all, it must be performed by entirely separate personnel with no involvement in the USF audit, management must retain and demonstrate full responsibility for all significant judgements and design decisions, and the audit team must treat the resulting standard costs as an area of significant audit risk requiring independent substantive verification. Given the direct and material link to inventory valuation, the firm should carefully consider whether to decline the engagement altogether.

Overall conclusion

Provided the three safeguards above are implemented - rotation of the engagement partner, rejection of the contingent fee proposal, and either declining the costing engagement or performing it with a fully separate team and full management responsibility - Rugwiro & Partners can continue to act as auditor of USF. Otherwise, Rugwiro & Partners cannot continue to act as external auditor for USF under the current structure.

(b) Matters relevant to tendering for the audit of Kivu Metal Works Ltd

1. Conflict of interest between direct competitors: USF and Kivu Metal Works Ltd are direct competitors in the same product markets. Acting for both creates a significant threat to confidentiality (each client's sensitive commercial information - pricing, sourcing arrangements, strategy - could be compromised) which the Code requires be managed through disclosure to, and consent from, both clients (where obtainable) together with robust safeguards such as separate, unconnected engagement teams and information barriers ('Chinese walls').
2. Existing relationships with Shield Bank and the firm's tax department: Both USF and Kivu Metal Works bank with Shield Bank, and the firm's own tax department already acts for Kivu Metal Works. This raises a need to assess any self-review or familiarity threats arising from the tax department's existing role (ensuring tax figures prepared are not simply accepted without independent audit challenge), and to consider the added sensitivity given Shield Bank's live enquiries into the firm's prior-year USF audit opinion.
3. Resources and competence: Whether the firm has sufficient partners and staff, independent of the USF engagement team, with the relevant sector expertise to service a new audit client of this nature without diluting quality on either engagement.
4. Reputational exposure: Whether accepting a second client in the same specialised sector, at a time when the firm faces a potential negligence claim connected with USF, could increase the firm's overall reputational and litigation exposure if problems were to arise on the new engagement.
5. Professional clearance and acceptance procedures: The firm must still carry out ordinary new-client acceptance procedures, including seeking professional clearance from Kivu Metal Works' outgoing auditor for any reason not to accept the appointment.

Recommendation: The firm may tender for the Kivu Metal Works audit provided it uses a completely separate and unconnected engagement team from the USF engagement, implements formal information barriers and confidentiality undertakings between the two engagement teams, and confirms (through disclosure and, where required, consent) that both clients are comfortable with the firm acting for a direct competitor. If, having disclosed the conflict, either client objects, or if the firm cannot in practice separate the teams (e.g. due to limited local staff availability), the firm should decline to tender.

(c)(i) Respective responsibilities for prevention and detection of fraud

The primary responsibility for the prevention and detection of fraud rests with those charged with governance and management of USF, through the design and operation of an effective system of internal control and the promotion of a culture of honesty and ethical behaviour. On the facts, this responsibility was not discharged effectively: the scrap yard had no weighbridge or independent recording of volumes, gate passes were prepared and authorised manually by the production manager alone, and the same individual (Vincent Nshuti) was responsible both for authorising the write-off of substandard steel to scrap and for its onward sale through the fictitious account - a fundamental lack of segregation of duties that management should have identified and remedied.

The auditor's responsibility, by contrast, is to obtain reasonable (not absolute) assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error, by exercising professional scepticism, assessing the risk of fraud (including the risk of management override of controls), and designing procedures responsive to that assessment. An audit is not designed to detect all fraud, particularly a scheme perpetrated by an individual outside senior management using no collusion and concealed for 18 months, and the fact that this fraud was uncovered only via a whistle-blower call rather than through audit procedures does not, of itself, indicate an audit failure - provided the auditor had appropriately identified and responded to the relevant control weaknesses (absence of segregation of duties over the scrap yard) as part of its risk assessment.

(c)(ii) Likelihood the firm is found negligent to Shield Bank

To succeed in a negligence claim, Shield Bank must establish: (i) that a duty of care was owed to it; (ii) that the duty was breached; and (iii) that the breach caused its loss. Courts have generally been reluctant to extend an auditor's duty of care to third parties such as banks, absent a contractual relationship, unless there is sufficient proximity - for example, where the auditor knew the specific party and the specific purpose for which the financial statements would be used and effectively assumed responsibility to that party (as in the exceptional case where BDO was held liable to ADT in 1995). If Shield Bank can show that Rugwiro & Partners was aware the prior year's audited financial statements would be relied upon specifically for the facility renewal, an arguable case for proximity exists; otherwise, no duty of care is likely to be found.

Even if a duty of care were established, Shield Bank would still need to show the prior-year audit fell below the standard of reasonable skill and care (breach) - for instance, that the fraud, weak segregation of duties, or other misstatements existed and should have been identified at the time - and that this breach, rather than USF's subsequent trading and cash-flow deterioration, caused the bank's loss. On the facts presented, the loss

appears to stem primarily from USF's later financial deterioration and default rather than from any demonstrated flaw in the prior-year audit opinion, making causation difficult for the bank to establish.
Conclusion: **The firm is unlikely to be found negligent to Shield Bank**, principally because of the difficulty in establishing both a duty of care to a third-party lender and a causal link between any audit shortcoming and the bank's loss; however, given the enquiries have already begun, the firm should engage legal counsel and its professional indemnity insurers promptly and preserve all relevant documentation from the prior-year file.

(c)(iii) Three ways to limit exposure to claims of this nature

1. Include clear engagement letter terms (and, where legally permitted, liability limitation/agreement clauses) that define the scope and limitations of the audit, state that the report is addressed to the shareholders as a body for the purposes of the Companies Act only, and make clear that no duty of care is assumed to any third party without the firm's express written consent to that party relying on the report for a stated purpose.
2. Maintain robust quality management and adherence to ISAs, including proper documentation of risk assessment and audit evidence, so that the firm can demonstrate that reasonable skill and care were exercised if a claim is brought.
3. Maintain adequate professional indemnity insurance and, where the firm becomes aware that a third party (such as a bank) intends to rely on the audit report for a specific transaction, formalise the extent (or express exclusion) of any duty owed to that party in writing before the transaction proceeds.

(d) Quality management deficiencies and recommended policies

Firm-level deficiency: No engagement quality review performed

Despite USF meeting the firm's own criteria for a listed-entity-equivalent risk rating (which, under the firm's system of quality management, should trigger a mandatory engagement quality review under ISQM 2), no engagement quality review (EQR) was performed for the 2024 audit. This is a firm-level deficiency in the design or operation of the firm's system of quality management (specifically, the policies and procedures for identifying engagements requiring an EQR and for monitoring that the requirement is actually complied with).

Recommended policy: The firm should implement a mandatory pre-issuance control - for example, a report-release checklist that cannot be signed off, and no auditor's report can be issued, until the risk-rating assessment and (where triggered) confirmation of a completed EQR are documented and evidenced, with this control itself subject to periodic monitoring/inspection under the firm's ISQM 1 monitoring and remediation process.

Engagement-level deficiency: lack of review of a significant judgement

The impairment of the idle rolling machine (reducing prior-year profit before tax by FRW 180 million) - a highly judgemental and material matter - was signed off by a first-year trainee with no documented evidence that it was reviewed by a more senior or experienced member of the engagement team before the file was archived. This is an engagement-level deficiency in engagement performance / direction, supervision and review under ISA 220 (Revised): work was not assigned commensurate with competence, and the engagement partner did not ensure that significant and judgemental matters were reviewed by suitably experienced staff.

Recommended policy: The firm should require that all significant or highly judgemental areas of every audit file be flagged during planning and subject to mandatory review and sign-off by the engagement manager and partner (not solely by junior staff), with the file-archiving process itself including a control step that blocks archiving until such reviews are evidenced as complete.

QUESTION FOUR

MARKING GUIDE

Subquestion	Details (basis of mark allocation)	Total Marks
a)	1 mark for each of TWO CMA Code Audit Committee requirements correctly explained (max 2 marks) + 1 mark each for a linked explanation of relevance to Rugwiro & Partners (max 2 marks).	4
b)	2 marks for each of the three balances (revenue, ROU lease assets/liabilities, loyalty points liability): 1 mark for a relevant substantive procedure + 1 mark for correctly linking it to the assertion addressed.	6
c)(i)	Up to 5 marks for a well-structured evaluation applying the ISA 610 criteria (organisational status/objectivity, competence, systematic approach) to the facts, with a reasoned conclusion on reliance.	5
c)(ii)	Up to 3 marks for discussion of the impact of the proposed co-sourcing arrangement on the group audit strategy (capacity/expertise gained, independent evaluation still required, timing, coordination with the component auditor).	3
d)(i)	Up to 3 marks for explaining the group team's responsibilities for determining component significance under ISA 600 (Revised) (quantitative and qualitative significance, procedures at non-significant components).	3
d)(ii)	1 mark for each relevant procedure the group team should perform on the DRC component auditor's work, given the different national auditing standards applied (max 4).	4
TOTAL		25

DETAILED MODEL ANSWER

(a) Two CMA Code requirements on the Audit Committee and their relevance to Rugwiro & Partners

Requirement 1: Composition and independence of the Audit Committee
Under the CMA Code (Article 10(c)), the audit committee must comprise at least three non-executive members, the majority of whom (including the chairperson) must be independent, and at least two members

must have relevant accounting or finance expertise. Having listed only six months ago, the Group's board previously comprised solely the three founding-family executive directors; although two independent non-executive directors have since been appointed, the composition of board committees has not yet been finalised, so this requirement is not yet demonstrably met.

Relevance to Rugwiro & Partners: As group engagement auditor, Rugwiro & Partners needs an independent, appropriately constituted audit committee to act as its primary point of contact on the engagement for agreeing the scope and terms of the audit, discussing significant judgements and disagreements with management, approving the audit fee, and pre-approving any non-audit services - all of which safeguard the auditor's independence and support effective two-way communication under ISA 260. Until the committee is properly constituted, the auditor cannot rely on this governance layer and must exercise increased scepticism when dealing directly with the founding-family executives.

Requirement 2: Frequency of meetings and oversight of the financial reporting/audit process
The CMA Code requires the audit committee to meet at least quarterly to monitor internal and external audit matters, with at least one meeting held before the finalisation of the annual financial statements, and requires the committee to report on its meetings to the board and in the annual report.

Relevance to Rugwiro & Partners: This is the first year the Group must comply with the Code, and the financial statements involve a number of complex, judgemental areas (the unrecorded DRC lease modification, the loyalty-points breakage assumption, and group consolidation of a significant, differently-audited component). A properly functioning, quarterly-meeting audit committee with genuine financial reporting expertise is essential for the auditor to obtain timely engagement with those charged with governance on these matters and to escalate concerns (for example, about internal audit's reporting line, discussed in (c) below) to a body independent of management.

(b) Substantive procedures for three Group balances, linked to assertions

Contract-based conference and event revenue
1. Select a sample of conference/event contracts spanning the year end and recompute the proportion of revenue recognised by reference to the performance obligations satisfied to date (e.g. elapsed contract period/retainer period), agreeing to the contract terms - this addresses the occurrence and cut-off assertions, ensuring revenue is recognised only as, and to the extent, control/performance obligations transfer.

2. Trace a sample of non-refundable deposits received in advance of future events to bank statements and to the deferred revenue/contract liability balance recognised at the year end - this addresses the completeness assertion, confirming that amounts relating to events not yet held are appropriately deferred rather than recognised as current-period revenue.

Right-of-use lease assets and lease liabilities

1. Recompute the lease liability for each of the six leased hotels as the present value of remaining lease payments using an appropriate incremental borrowing rate, with particular focus on recalculating the DRC hotel lease modification (rent reduction linked to security conditions in exchange for a two-year extension)

that management has not yet reflected - this addresses the valuation/accuracy assertion, testing whether the ROU asset and lease liability are remeasured correctly under IFRS 16 at the modification date.

2. Inspect the original lease agreements and the modification agreement/side letter for the DRC hotel to confirm the lease terms (10–15 years) and the amended terms actually agreed - this addresses the rights and obligations (and existence) assertions, confirming the Group's contractual right of use and the accuracy of the terms reflected in the financial statements.

Amber Rewards loyalty points liability

1. Recalculate the deferred revenue liability for unredeemed points, testing the reasonableness of the breakage assumption against actual historical redemption data accumulated since the programme's launch three years ago, given the liability has grown by 35% over two years and the assumption has not been updated - this addresses the valuation assertion.

2. Extract system data on points issued and redeemed during the year and reconcile this to the roll-forward of the loyalty liability balance from the opening to closing balance - this addresses the completeness assertion, confirming all qualifying stays have generated the correct points liability and that redemptions/expiries have been correctly removed from the balance.

(c)(i) Reliance on the internal audit function, having regard to its reporting line

ISA 610 requires a two-step assessment: first, whether the internal audit function itself is adequate (organisational status/objectivity and competence), and second, if so, the quality of the specific work to be relied upon.
Organisational status/objectivity: This is the principal concern here. The Chief Internal Auditor reports both administratively and functionally to the Group Finance Director rather than to the Audit Committee, and the Group Finance Director also approves internal audit's annual work plan and budget - this is a fundamental threat to internal audit's independence, since the function is effectively controlled by, and reports to, a member of executive management whose own area of responsibility (finance) falls within internal audit's scope. This is compounded by the fact that internal audit reports for the first three quarters were not shared with the Audit Committee until after its meetings had already taken place, undermining effective independent oversight and escalation.
A further, specific objectivity/self-review concern: The Chief Internal Auditor spent approximately 20% of his time assisting operational management in redesigning cash-handling procedures at the DRC hotels - a management, rather than assurance, activity. If internal audit were later to review or provide assurance over those same cash-handling controls, this would represent a self-review threat to its objectivity on that specific area.
Competence: No specific weaknesses in the qualifications or technical capability of the four-person function are indicated in the scenario, so competence is not the primary concern.

Conclusion: Given the fundamental weaknesses in organisational status and objectivity (reporting line to the Group Finance Director rather than the Audit Committee, management approval of scope/budget, delayed reporting, and direct involvement in designing controls at the DRC hotels), the group external audit team

should place little or no reliance on the internal audit function generally, and should place no reliance at all on internal audit's work relating to DRC cash-handling controls specifically, instead performing independent testing of those controls directly.

(c)(ii) Impact of the proposed co-sourcing arrangement on the group audit strategy

Co-sourcing internal audit coverage of the two DRC hotels to a third-party accounting firm may improve capacity and provide French-speaking resources familiar with the DRC regulatory environment, potentially improving the quality and relevance of internal audit work at that component over time. However, the external audit team must still apply the same two-step ISA 610 evaluation independently to the co-sourced provider's work - assessing its objectivity (it is at least organisationally separate from the Group Finance Director, which is a potential improvement) and competence - before placing any reliance on it; the group-level reporting-line weakness identified in (c)(i) does not automatically taint work performed by an independent third party, but this must be separately evidenced, not assumed.

The group audit team should also: coordinate with the DRC component auditor to avoid duplication of, or gaps in, coverage between the co-sourced internal audit work and the statutory component audit; confirm the co-sourced firm has no independence conflicts with Rugwiro & Partners' own network; and recognise that, since the arrangement is still under consideration and may not be operational in time for the current year's audit, the current year's group audit strategy should proceed on the basis that no reliance can yet be placed on DRC internal audit coverage, with resourcing planned on the assumption of fully independent group-team/component-auditor procedures at the DRC hotels for this cycle.

(d)(i) Group team's responsibilities for determining component significance

- **Responsibilities for Determining Component Significance:** Under ISA 600 (Special Considerations, Audits of Group Financial Statements), the group engagement team bears ultimate responsibility for identifying which components within the corporate architecture are financially or operationally significant:
- **Financial significance threshold:** The group auditor must establish a quantitative benchmark (typically 15% to 20% of a consolidated financial statement metric, such as total assets, liabilities, or revenue). Because Amber Hotels DRC SARL contributes 28% of consolidated revenue, it is classified as a financially significant component. The group auditor must mandate a full statutory financial audit for this entity.
- **Inherent risk evaluation:** Components that do not meet quantitative financial thresholds may still be classified as significant if they carry unique inherent risks that could cause a material group misstatement.
- **Application to Uganda:** Amber Hotels Uganda Ltd is noted as not individually material and is not audited. However, the group team must review its operating metrics annually through group-level analytical reviews to confirm it contains no hidden fraud dynamics or severe risks that could distort the consolidated group accounts.

(d)(ii) Procedures on the work of the DRC component auditor, given different auditing standards

1. Evaluate the professional competence, objectivity and independence of the Goma-based component auditor, and specifically assess the extent to which the national auditing standards it applies differ from the clarified and revised ISAs used by the group engagement team, identifying any gaps in evidence that would result.
2. Issue clear, written group instructions to the component auditor specifying the scope of work required (including, where necessary, additional procedures to bridge any gap between the local standards and the ISAs), the component materiality/performance materiality to be applied, significant risks requiring attention (currency translation, security-related occupancy risk), and the required form and timing of reporting back to the group team.
3. Review the component auditor's working papers and reporting package (through remote review, file transfer, or an on-site visit given the significance of the component and the regional instability) and discuss significant judgements and findings directly with the component engagement partner/team, to assess the sufficiency and appropriateness of the evidence obtained.
4. Perform additional group-level procedures where the local-standards-based work does not provide sufficient evidence for group purposes - for example, independently testing consolidation adjustments, currency translation calculations, and any areas of judgement (such as impairment or lease accounting) not covered to an ISA-equivalent standard by the component auditor - and document an overall conclusion on whether the combined evidence provides an appropriate basis for the group opinion.