



# Initial Assessment of Competence

## Professional Paper 1

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Part (a) Discuss the effect of the information provided in section 2 (Understanding the inventory account balance) on the auditor's assessment of the risk of material misstatement for the inventory account balance in the FY2025 annual financial statements of MT.	Marks
Inventory is MT' largest asset and the risk of material misstatement for all <b>inventory-related assertions is increased</b> because of the magnitude of this account balance – which means that misstatements relating to this account balance could translate into a <i>material</i> misstatement in the financial statements.	1
The risk of material misstatement for multiple inventory-related assertions:  A demotivated staff working long hours may also make more errors when capturing and processing inventory transactions, as well as counting inventory (existence, completeness, valuation).	1
The use of a computerised perpetual inventory system could decrease risk at assertion level due to the real time tracking of inventory and real time access to selling prices, therefore quick responses to changes (valuation, existence).	1
MT's operations are decentralised, with its central distribution centre in Johannesburg and several other stores. This may result in inconsistent controls and handling of inventory across the 75 stores, which could cause multiple misstatements in the inventory balance (existence, completeness, valuation, etc).	1
All returns might not be recorded, recorded correctly (valuation), or might not be recorded in the correct accounting period (completeness, cut-off), due to increases from prior years.	1
The risk of material misstatement relating to the <i>existence</i> assertion is further increased due to the following –  the fact that the inventory balance increased by 11% compared to the prior year's balance, coupled with a decline in the inventory turnover rate, could point to an overstatement of inventory – which may be due to (fictitious) inventory not on hand being reflected as part of the inventory balance ( <b>existence</b> )	1
The ongoing transfers of inventory between the Johannesburg DC and stores, there is a risk that inventory transferred to stores around year end is double-counted (i.e. taken into inventory both at the DC upon dispatch and at the store upon receipt) ( <b>existence</b> )	1
Assuming that the inventory count was undertaken properly, the risk pertaining to this assertion will, however, be reduced by the relatively small inventory adjustment that had to be made ( <b>existence</b> )	1
There is an increased risk of theft, due to inventory being in high demand (fashionable), and easy to conceal (small and light) ( <b>existence</b> )	1
Inventory at sea, which is included in inventory balance, does not exist i.e. was stolen resulting in overstatement of inventory ( <b>existence</b> )	1
If staff are demotivated due to a lack of salary increases and bonuses over time, there is an increased risk of fraud occurring (e.g. misappropriation of assets, including inventory) due to staff rationalising such conduct ( <b>existence</b> )	1
The risk of material misstatement relating to the <i>rights</i> assertion is further increased due to the following:  MT has to account for consignment inventory, therefore there is a risk that such inventory is erroneously counted and recorded as inventory belonging to MT (e.g., due to an inadequate system of tracking consignment inventory) ( <b>Rights</b> )	1
The risk of material misstatement relating to the <i>accuracy, valuation and allocation</i> assertion is further increased due to the following:	1

For inventory on hand acquired from foreign suppliers – the cost of the merchandise invoiced in foreign currency may not be translated correctly using	
<ul style="list-style-type: none"> <li>• the appropriate <b>spot rate</b> at the transaction date (FOB date); or</li> <li>• the transaction <b>date</b> (FOB date) is not correct.</li> </ul>	
the cost price of the merchandise may not include all costs incurred to get inventory in the location and condition as intended by management (shipping and freight charges, import costs, customs duty, excluding costs to transfer from distribution centre to stores, VAT, storage)	1
Material misstatements may arise due to the inventory not being stated at the lower of cost and net realisable value (NRV), for the following reasons:	1
Complexities in determining NRV and estimates used in the determination of the allowance, both influenced by management bias, can cause misstatements in the valuation of inventory.	
Due to the fast-changing nature of fashion, there is a risk of there being inventory that is only saleable at amounts that are below its unit cost.	1
It is possible that merchandise that is damaged may be accepted back into inventory – which may not be saleable at amounts above the cost thereof.	1
The decline in the gross margin from 2024 to 2025 increases the likelihood that markdowns will result in the NRV being below cost.	1
The risk that the inventory write down is materially misstated is increased due to the following:	1
Management’s approval of the inventory adjustment without deeper analysis and on the basis of “inevitable” inventory shortages highlights an inappropriate estimate of inventory obsolescence, likely increasing the risk of incorrect inventory valuation.	
There is a decrease in sales, and slow moving stock is causing inventory balances to increase	1
(the inventory turnover rate has therefore declined markedly from the prior year (2025: $0.75 \times 501,000 / 150,209 = 2.5$ ; 2024: $0.67 \times 554,000 / 132,023 = 2.8$ )	1
Counterintuitively, the inventory obsolescence allowance has decreased in both an absolute amount and as a percentage of the inventory balance	1
(2025: $11 / 150 = 7\%$ ; 2024: $13 / 132 = 10\%$ ) and is therefore not in line with the increase in inventory balance.	1
Inventory at sea could be water damaged while being shipped and is thus valued incorrectly (overvalued) – this can be evident in the number of returns of defective goods.	1
Inventory could be of poor quality and can therefore be overvalued, given the high rate ( $20 / 150 = 13\%$ ) of returns, resulting in overstatement of inventory.	1
The risk of material misstatement relating to the <i>completeness</i> assertion is increased due to the following:	1
As the company imports from international suppliers (FOB), it is possible that the risks and rewards of ownership of other imported inventory have transferred to MT at year end but is not accounted for, increasing the risk for the completeness assertion.	
With ongoing transfers of inventory between the Johannesburg DC and stores, there is a risk that inventory transferred to stores around year end is not accounted for (i.e. derecognised in inventory at the DC upon dispatch and not yet recognised at the store).	1

The risk of material misstatement relating to the <i>presentation and disclosure</i> assertion is increased due to the following:  Due to the potential liquidity/going concern problems, there is a risk that inventory may be pledged as collateral for loans and is inaccurately classified as free from encumbrances.	1
Due to the various factors raised above regarding complexity and management bias, there is an increased risk that the disclosure of inventory is not aligned with IAS 2 (policies are not appropriate or consistently applied).	1
<b>Conclusion:</b>  Based on the risks identified above, the risk of material misstatement for inventory at assertion level is considered to be high (at the higher end of the risk spectrum)	1
<b>Available</b>	<b>30</b>
<b>Total for part (a)</b>	<b>15</b>
<i>Y4: Judgement and decision making (Mark awarded unless candidates contradicted themselves on a specific trigger)</i>	1
<b>Total for part (a)</b>	<b>16</b>

Part (b) Describe the key controls that MT should have implemented to ensure – (i) the accuracy and completeness of data captured by Paul that influence clearance sales; and	Marks
GRN's received by Paul should be <b>sequentially numbered</b> and the sequence should be <b>reviewed</b> to ensure that no GRN's are missed.	1
For each merchandise item code, Paul Potgieter (merchandise manager) should complete a <b>standardised template for the input of data</b> relating to markup percentage, budgeted sales and start date of the final clearance sale.	1
The data captured by Paul for each merchandise item should be <b>logged and the logs should be reviewed online</b> by the merchandise director, Sarah Smith against the approved supporting documentation (eg the sales budget from sales director) before being processed. It should be enforced by her having to give online approval before the processing of the data commences.	1
Screen layout should facilitate the accurate and complete capturing of the data, therefore the following edit checks should be used for capturing to the standardised template:	
Descriptive data <b>echo test/drop down menu</b> (when unique merchandise item number is captured descriptive information of the item should be displayed so that Paul can verify that he has entered the correct number when compared to GRN).	1
<b>Alphanumeric checks</b> on the merchandise item code, markup percentage, budgeted quantities, entered (to ensure that only numeric characters are input/captured);	1
<b>Limit/Range checks</b> on the markup percentage and budgeted sales quantities entered (i.e. markup percentage should be in line with company policy and the quantity input/captured cannot exceed the quantity of merchandise received); and	1
<b>Sign checks</b> on the markup percentage and budgeted quantity entered as they should not be negative.	1
<b>Validation check</b> on start date of final clearance sale to ensure it is in the future / a minimum amount of time must pass before clearance sale date can commence based on company policy.	1
<b>Calendar pop-ups/format check</b> on date should allow the administrator to select the date from a visual calendar, eliminating the need for manual entry and reducing the risk of errors.	1
<b>On-screen warning/error/</b> 'are you sure' messages when values inputted do not meet the edit check standards, preventing Paul from continuing without first correcting incorrect/incomplete data.	1
<b>Mandatory field checks</b> should be implemented with error messages if all fields are not completed.	1
Exception reports should be generated of instances where:	
<b>Exception reports where</b> the total budgeted sale volumes as captured on the systems description are more/less than the quantity of merchandise received per the GRN; and	1
<b>Exception reports where</b> there are merchandise item codes on the inventory system for which no budgeted unit sales have been recorded.	1
<b>Exception reports where</b> the final clearance sales start dates more than a season from GRN date.	1
These <b>exception reports should be reviewed</b> by Sarah, and in the event of errors being detected, the necessary remedial action to correct this should be taken.	1
Once Paul reviews and deems it fit to make amendments to a merchandise item, he should complete the <b>pre-numbered amendment form</b> for the markup percentage and/or clearance start date.	1
Each amendment form must be <b>logged</b> on the system, and logs must <b>reviewed</b> by an independent person.	1

An independent person should extract an <b>exception report where the pre-numbering of the Masterfile amendment forms has missing sequence</b> to ensure that all changes are all recorded and complete.	1
<b>Available</b>	<b>18</b>
<b>Maximum</b>	<b>10</b>
<b>Total for part (b)(i)</b>	<b>10</b>

<b>Part (b) Describe the key controls that MT should have implemented to ensure –</b> <b>(ii) the accuracy and completeness of the promotional discount details captured by Debra on the inventory management system.</b>	<b>Marks</b>
Screen layout should facilitate the accurate and complete capturing of the data, therefore the following edit checks should be implemented:	
Descriptive data echo <b>test/Dropdown</b> menu (when unique merchandise item number is captured descriptive information of the item should be displayed so that Debra can verify that he has entered the correct number by comparing to the Exco data)	1
<b>Alphanumeric checks</b> merchandise item code and promotional discount percentage (to ensure that only numeric characters are input/captured);	1
<b>Sign checks</b> on the promotional discount entered as it should not be negative.	1
<b>Range checks/reasonability checks</b> on promotional discount percentage (should not be below 0% and not more than 50% in line with company policy – should be lower than 50% which is final clearance	1
<b>Validation check</b> on the date - the 'last date for discount' cannot be before the 'start date for discount'/ end date should be before final clearance / start date should be in future.	1
<b>Calendar pop-ups / drop down</b> box should allow the administrator to select the date from a visual calendar, eliminating the need for manual entry and reducing the risk of errors.	1
On-screen <b>warning/error</b> 'are you sure' messages when values inputted do not meet the edit check standards, preventing Debra from continuing without first correcting incorrect/incomplete data.	1
<b>Mandatory field checks</b> should be implemented with error messages if all fields are not completed.	1
<b>Grey out/Shade out of fields:</b> Fields that are not intended to be amended by the user should be disabled or made read-only to prevent unauthorised changes.	1
System-generated <b>logs</b> of any processing interruptions should be produced and reviewed to confirm that no information was lost or compromised, thereby supporting the accuracy and completeness of data captured.	1
All discount details captured should be automatically logged by the system. An independent staff member (from the merchandise discount process) should –	
<b>review the logs</b> and compare these on a line-by-line basis to the approved discounts per the minutes / records of the applicable executive management committee meeting / a reconciliation can be performed between the log and the Exco information; and	1
ensure that the <b>log reviewed</b> follows on the most recent log previously reviewed (i.e. that there are no changes made that were not reviewed) / all logs should be signed as evidence of review and all logs not signed should be followed up on.	1
<b>Exception reports for missing data</b> , errors in discount percentages etc should be extracted and reviewed by management for follow up.	1

Once the logs are reviewed, the system should lock the record so that no further changes can be made by Debra	1
<b>Available</b>	<b>14</b>
<b>Maximum</b>	<b>8</b>
<b>Total for part (b)(ii)</b>	<b>8</b>
<i>X1: Communication skill: Clarity of expression (Mark awarded if candidates communicated clearly and their answers were understandable)</i>	1
<b>Total for part (b)</b>	<b>19</b>

Part (c) Formulate the additional substantive audit procedures that should be performed by Sentinel to obtain sufficient appropriate audit evidence about the inventory obsolescence allowance balance as at 31 December 2025.	Marks
Using GAS <b>extract a report</b> of all inventory items at 31 December 2025 where the final date of clearance has been reached and which were marked down in December 2025, and <b>through inspection agree</b> this listing to the working obtained from management (completeness).	1
Obtain INV-106 and <b>reperform the calculation</b> of the inventory obsolescence allowance for mathematical accuracy	1
Use the GAS to <b>compare the cost price to the NRV</b> (i.e. either 50% of normal selling price or the adjusted selling allowing for the approved discount %) to identify items for which NRV write down should be recorded (Cost>NRV) and inspect whether a write down was recorded (accuracy)	1
Using GAS <b>confirm that the correct mark down</b> percentages were used for the correct category of stock items by:	
Comparing promotional items on the listing to those on the approved Exco schedule (occurrence)	1
Ensuring through use of <b>exception report</b> or filtering, that all final clearance items have reached the final clearance start date (occurrence)	1
<b>Inspect the minutes of the management / board meeting</b> for the approval of the obsolescence allowance policy as well as the evaluation of the allowance amount (occurrence, accuracy).	1
<b>Inspect exco minutes of meetings</b> for the approval of the promotional discounts (occurrence, accuracy).	1
Using GAS <b>extract a report that compares budgeted vs actual sales</b> quantities to ensure that all slow-moving items have been considered for promotional discounts (completeness).	1
<b>Compare</b> , through inspection, the <b>write-down</b> made on <b>FY2024</b> to the actual write-downs of this inventory during <b>FY2025</b> to ascertain the appropriateness of the method used to compute the allowance (accuracy)	1
Using GAS, <b>compute the average selling prices</b> of inventory items on hand on 31 December 2025 in January and February 2026 (accuracy) / Agree through inspection the selling price per the inventory schedule to the most recent price list to confirm the correct amount is being used (accuracy).	1
Using GAS, <b>compare these average selling prices to the unit cost</b> and NRV as per the December 2025 report used to compute the inventory obsolescence allowance for all inventory items where the SP is less than cost (accuracy).	1
Using GAS, <b>extract reports where there were no sales</b> of inventory items on hand at 31 December 2025 in January and February 2026 in order to identify slow moving inventory that should have been written down in 2025 (completeness).	1
Discuss the items on the reports obtained in <b>points 9, 10 and 11</b> with the merchandise director (Sarah) to determine to what extent adjustments need to be made to the allowance to include these items if not yet included (completeness).	1
Enquire from management the <b>process of handling of returns</b> : how merchandise returned by customers as being defective are dealt with – to ensure that such items are not reflected in inventory at cost (which might be higher than their NRV) (accuracy).	1
<b>Observe that during the inventory count</b> , any defective inventory or slow moving inventory (excluding consignment stock) identified should be traced to records to see if included in the allowance (completeness).	1
<b>Perform the following analytical procedures</b>	

<b>Ageing of inventory on hand:</b> Using GAS, reperform the ageing of the inventory on hand at year end and compare to that at the end of FY2024, (or inspect invoices and payments made to verify age of inventory) to determine if there has been an increase in the average age of inventory/slow moving inventory, as this would indicate an increase in allowance (completeness).	1
<b>Inventory turnover ratio:</b> Calculate the inventory turnover ratio for the past financial years to determine if there has been a decrease in the ratio, indicating the allowance should increase (completeness).	1
<b>Inventory allowance percentage:</b> Calculate the allowance as a percentage of gross inventory for the current and the prior year as a similar ratio would be expected (completeness) or compare to industry norms (accuracy).	1
<b>Follow up on exceptions in the above ratio analysis:</b> Enquire from management the reasons for any fluctuations that differ from your expectations and corroborate the explanations given by management with further audit procedures.	1
<b>Extract the following exception reports:</b> Perform a <b>duplicate field test</b> to ensure a NRV write down is not calculated twice for the same inventory code (occurrence).	1
<b>Extract the following exception reports:</b> Perform a data integrity test to identify any <b>negative numbers</b> , or blank or nil fields for further inspection and investigation i.e. missing inventory number, missing dates, missing discount percentage. (occurrence).	1
<b>Perform subsequent events testing</b> , such as enquiries of management, inspecting minutes post year end, inspecting high product returns after year end, to identify any events that may result in an increase in the allowance (completeness).	1
<b>General procedures</b>	
<b>Evaluate the competence, objectivity and experience of management</b> who prepared the inventory obsolescence allowance through inspection of CV's (all assertions).	1
Inspect <b>disclosure in the AFS</b> and ensure that it is in line with IFRS (presentation and disclosure)	1
<b>Available</b>	<b>24</b>
<b>Maximum</b>	<b>9</b>
<i>W1: Data analysis – appropriate use of GAS (Mark awarded if candidates incorporated GAS procedures in their answers)</i>	1
<b>Total for part (c)</b>	<b>10</b>

Part (d) With regard to MT’s liquidity and profitability challenges (under section 6: Going concern assessment) – (i) describe the additional audit procedures that should be performed by Sentinel on the action plan formulated by the management team of MT; and	Marks
<p><b>Inspect the minutes of the board meeting</b> of MT where this action plan (and these three specific actions) was discussed/<b>approved</b> (occurrence) to verify the following details:</p> <p>Specific <b>stores to be closed</b> The <b>date</b> of closure <b>Reduction in marketing expenses</b> (1 mil per month) <b>Loan financing to be obtained from Inala.</b></p>	2
<p><b>Assess the reasonability of the action plan and the impact on the going concern assessment by:</b> Discussing the logic used by management (rationale) in the preparation of the action plan and the revised cash flows and perform reasonability tests (sensitivity and scenario analysis, comparison to market and industry data) on the assumptions used to determine the impact on the going concern issues (as below).</p>	1
<p><b>Obtain the cashflow forecast and cast and cross cast</b> the revised cash flow forecast where the 3 actions have been taken into account (accuracy).</p>	1
<p><b>Compare, through inspection, previous budgets or forecasts</b> made by management (eg FY2025) to actual results to assess whether management forecasts have been previously reasonable (occurrence, accuracy).</p>	1
<p><b>Obtain a written representation letter, to be signed by the CEO</b>, for the company’s plans for future action and the feasibility of these plans, including the reference to the appropriateness of the key assumptions used.</p>	1
<p><b>Closure of stores</b></p>	
<p>Inspect the financial results of the stores suggested for closure to ensure that they were indeed unprofitable and that there is reduced activity post year end (occurrence).</p>	1
<p>Inspect any post year-end evidence such as notices issued to lessors or employees, to assess whether store closures are being actively implemented / management accounts to ensure no sales have taken place in closed stores (occurrence).</p>	1
<p>Compare, by inspection, the revenue losses projected by management for each store to the revenues earned by these stores in FY2025, as extracted from the trial balance / the store’s sales reports for FY2025, for reasonability (accuracy).</p>	1
<p>Compare, by inspection, the projected reduction in expenses for each store to the expenses incurred by each of these stores in FY2025, as extracted from the trial balance, for reasonability (accuracy).</p>	1
<p>Inspect the workings to ensure that the closure costs (such as early termination of lease, staff retrenchment costs for any salary savings) have been taken into account (completeness).</p>	1
<p>Inspect the relevant agreements (e.g., with employees and staff members, lease agreements) to ensure that the closure costs have been correctly identified for eg. the period / number of years that an employee has been employed at MT, the number of months salary offered as retrenchment package, lease cancellation fees (accuracy).</p>	1
<p>Once determined that the inputs are correct, a recalculation of these amounts included in the action plan for the relevant employees and lease cancellations, etc, will also need to be performed(accuracy).</p>	1

Enquire from management and inspect correspondence with legal advisors <b>regarding labour law implications of retrenchments/unions</b> – legal fees included in forecast (completeness).	1
<b>Reduction in marketing</b>	
Compare, through inspection, the FY2025 actual marketing spend to the proposed reduced budget for FY2026 to assess whether the planned cost reductions are realistic based on historical spending patterns. / Calculate what percentage of the total marketing cost the R1m per month is to ensure the reduction is reasonable (occurrence).	1
Inspect the impact previous changes in marketing expenditure had on sales, and determine if this has been taken into account in the revised cash flow budget (occurrence, accuracy).	1
Inspect marketing contracts for terms and nature of costs to determine if these costs can be reduced and not fixed in nature/cancellations (occurrence).	1
Inspect marketing contracts to determine if there are any penalties that will need to be paid for early termination, and confirm that these costs have been taken into account by management in the cash flow forecast (completeness).	1
Inspect actual marketing expenditure in the first few months after year end to determine whether marketing expenses did indeed decrease by R1 million when compared to actual FY2025 marketing expenses (occurrence).	1
<b>Loan from Inala</b>	
Inspect the loan agreement or written confirmation from Inala, for the following:  <b>Signatures</b> of authorised representatives of Mt and Inala (occurrence). <b>Loan amount of R75 million</b> (accuracy of cashflow forecast) <b>Interest charge and repayment terms</b> (accuracy of cashflow forecast) <b>Date of the agreement</b> (accuracy of cashflow forecast)	2
Inspect the financial statements of Inala for the liquidity position of Inala Investments at 31 December 2025 (occurrence);	1
Inspect the sale of shares agreement between Inala and AID to ensure the agreement to sell the shares exists and the timing thereof (occurrence).	1
Inspect media reports for developments following the PDP's criticism of the arrangement (occurrence); and	1
Inspect the cash book (deposits)/bank statements of MT for any loan financing received – and that the timeframes specified in the loan agreement are met (occurrence, accuracy).	1
Determine whether the timing of the receipt of the funding aligns with the liquidity needs of MT through inspection of the revised cash flow forecast and assessing the liquidity position of MT (occurrence, accuracy).	1
Enquire from management if any regulatory approvals are required for the Inala/AID funding and inspect the MOI for any such restrictions on receipt of such funding (occurrence).	1
Enquire from the CFO whether there are any additional facts/information affecting the plan that has become available since the date on which the plan was prepared.	1
<b>Available</b>	<b>28</b>
<b>Maximum</b>	<b>13</b>
<i>Z1: Business internal environment (Mark awarded if candidates provided procedures on the detail on any one of the three elements of the action plan)</i>	1
<b>Total for part (d)(i)</b>	<b>14</b>

<p><b>Part (d) With regard to MT’s liquidity and profitability challenges (under section 6: Going concern assessment) –</b> <b>(ii) explain what modifications, if any, should be made to the auditor’s report on MT’s FY2025 financial statements.</b></p>	
<p>The audit team concluded that material uncertainty exists that may cast significant doubt on MT’s ability to continue as a going concern. Therefore the auditors need to establish the impact on the audit report:</p> <p><b>NB</b> (it was noted that the auditors did not identify any material uncorrected misstatements)</p> <p><b>The nature of the modifications that must be made to the auditor’s report will therefore depend on whether the client made adequate disclosure of the material uncertainty in the financial statements.</b></p> <p>The disclosures required include the principal events or conditions that may cast doubt on the entity’s ability to continue as a going concern and management’s plans to deal with this as well a statement that there is a material uncertainty that may render the company unable to realise its assets and discharge its liabilities in the ordinary course of business (ISA 570.19).</p>	1
<p><b>Is there disclosure?</b> There has been no indication in the scenario as to what management has disclosed in this regard, other than the comment made by Sarah that the inventory should be net off against the XYZ bank loan – indicating that management integrity could be an issue and therefore it can be assumed that adequate disclosure will not be made.</p>	1
<p>It was only stated that management confirmed that MT could trade profitably and that the liquidity challenges could be overcome. And it was stated that the financial statements are prepared on the going concern basis. Therefore it can be assumed that disclosure will be made.</p>	1
<p>The extent of disclosure to be made is judgemental therefore the non-disclosure (or partial disclosure) would lead to a judgemental misstatement that would have to be discussed with management.</p>	1
<p><b>Is it material?</b></p>	
<p>The misstatement would be considered qualitatively material as it relates to disclosures which could influence the decision making of the users. Or when considering the impact of the plan (closing stores, significant reduction in marketing expenditure (12 million), 75 million loan, 50 million in pledged inventory on a 24 million loan – this could further be considered as quantitatively material.</p>	1
<p><b>Is it pervasive?</b></p>	
<p>It could be considered to not be pervasive as the financials are prepared using the going concern assumption appropriately and the only impact on the financials is the disclosure of the conditions and management plans therefore the misstatement is regarding the going concern disclosure only and is therefore not considered pervasive.</p>	1
<p>It could be considered to be pervasive as it could affect the basis of preparing the AFS including each line item presented and would impact the users understanding of the full set of financial statements, and can therefore be considered pervasive</p>	1
<p><b>Impact on audit opinion</b></p>	
<p>If adequate disclosure <b>has not been made</b> of the events or conditions, such as the breach of loan covenants, appropriate disclosure of the pledged inventory, the amount of pledged inventory sold at year end, management’s plans to deal with the</p>	1

liquidity issues (closure of stores, reduction of marketing expenses, and obtaining funding from Inala)  and <b>it is not pervasive</b> the audit opinion must be modified with an except for opinion	
In the 'Basis for qualified opinion' section of the auditor's report, it will be stated that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern and that the financial statements do not adequately disclose this.	1
If adequate disclosure <b>has not been made</b> of the events or conditions, such as the breach of loan covenants, appropriate disclosure of the pledged inventory, the amount of pledged inventory sold at year end, management's plans to deal with the liquidity issues (closure of stores, reduction of marketing expenses, and obtaining funding from Inala)  and <b>it is pervasive</b> the audit opinion must be modified with an adverse opinion	1
In the 'Basis for an adverse opinion' section of the auditor's report, it will be stated that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern and that the financial statements do not adequately disclose this and it is pervasive.	1
<i>Alternatively:</i>  <i>If assumed that <b>adequate disclosure</b> has been made, the auditor's report should include a separate section under the heading 'Material uncertainty related to going concern' which draws attention to the note in the financial statements that discloses the material uncertainty (ISA 570.22).</i>	1
<i>The auditor's opinion on the financial statements will not be modified (i.e. an unmodified audit opinion will still be expressed), as there are no other material misstatements and the financial statements are fairly presented.</i>	1
Going concern uncertainty and the audit of management' assessment of going concern can be deemed to be a Key Audit Matter, as it requires significant auditor judgement. Reporting Going concern uncertainty as a KAM will only be applicable if the audit opinion is not modified (i.e. the going concern basis is applicable and adequate disclosure of the issue was made)	1
<b>Available</b>	<b>12</b>
<b>Maximum</b>	<b>5</b>
<b>Total for part (d)(ii)</b>	<b>5</b>
<b>Total for part (d)</b>	<b>19</b>
<b>TOTAL FOR PART I</b>	<b>64</b>