# Answers

**Section A**

**1 D**

Companies Regulation 29 prescribes the steps which the independent reviewer must follow if they have reason to believe a reportable irregularity has taken place. Taking reasonable measures to discuss the RI with the board of the company is the next step after having notified the board that such a report has been sent and attaching the report to the notice.

**2 B**

The recommended practice of King IV cannot guarantee sustainability, however, it promotes it. Also see Objectives of King IV in Part 2 of the Report.

**3 A**

Per Section 4(1) of the Auditing Profession Act (2005), the role of the IRBA is to promote integrity in the **auditing** profession, and not the accountancy profession as a whole, even though its work does contribute to improvement of the accountancy profession.

**4 C**

ISA 560.10 states the auditor has no duty to perform any audit procedures after the audit report has been issued. ISA 560.15 permits the auditor to issue an amended modified audit opinion (emphasis of matter, depending on severity). The auditor's duty to report RI does not end after the audit report has been issued as it relates to the audit appointment that the auditor has already accepted.

**5 C**

An external audit is limited to the audit of financial statements and the audit of internal controls that address the Risk of Material Misstatement of financial statements and laws and regulations that impact financial statements. An external audit does not assess performance against predetermined objectives. The scope of external audits is defined in the ISAs. An internal audit is focused on the management of business risk associated with operations, compliance with laws and regulations and financial reporting. An independent review is not an audit.

The scope of a public audit entails additional audit work and audit reports that need to be issued due to the requirements of the Public Audit Act (2004), section 28. The Public Audit Act (PAA) is silent on the scope of a public audit. Nonetheless, the IRBA provides guidance for auditing in the public sector that guides specific audit work that would allow the auditor to provide the reports required per the PAA, section 28.

**6 C**

The Companies Act (2008) of South Africa, section 24, does not prescribe employee contracts and documentation of the risk management system be kept in written format for a period of seven years, although it is good business practice to keep this documentation in written format for a specific period of time.

**7 A**

The auditor may incur liability when an audit opinion was expressed maliciously, fraudulently or pursuant to a negligent performance of the auditor's duties, even when there are valid reasons (section 46 of the Auditing Profession Act (APA)). The auditor does not incur liability when they fail to report an RI when they were unaware of it. The auditor should refrain from expressing an opinion when there is a limitation of scope since expressing an audit opinion in this circumstance can be regarded to be done in negligent performance. In terms of the section 46 of the APA, the auditor could incur liability against a third party if they were reasonably aware that the audit client would use the audit opinion to induce a third party to act or refrain from acting in a certain way.

**8 B**

All matters that affect independence (such as a conflict of interest) need to be communicated in writing (ISA 260 R.21). Findings such as non-compliance with key laws in which management are involved, which could be suspected RI, also need to be communicated in writing (ISA 260 R.20).

**9 B**

The IRBA code is applicable only to professional accountants in public practice who are registered auditors, whereas the ACCA Code is applicable to all members who are in public practice regardless of whether they are registered auditors or not. All other options are correct in terms of the differences between the ACCA and IRBA Codes of Professional Conduct.

**10 C**

Scoping criteria are benchmarks used to measure or evaluate the underlying subject matter in sustainability assurance engagements. Scoping criteria are considerations, not methods or protocols. See SAAEPS 1.42.

**11 B**

Non-disclosure of the implementation of the King Code does not result in a modification of the audit opinion in terms of JSE listing requirements. Profit forecasts are only required if the actual results of the current financial year differ by more than 10% from forecasts for that period. See JSE Listing Requirements s8.63-8.64.

**12 A**

Practices are the actions recommended by King IV. Governance outcomes are benefits that can be realised when adopting King IV. Legal status is not an element around which the King IV Report is developed.

**13 B**

The ACCA guidelines on Disciplinary Sanctions provides a list of sanctions that can be applied by the disciplinary committee. The list indicates that admonishment is the lowest sanction that can be applied.

**14 C**

The Regulatory Reporting Requirements are part of special purpose frameworks for financial reporting. See SAAPS 2.23-24.

**15 A**

The Companies Amendment Bill of 2023 reduced the five-year cooling-off period of section 90 of the Companies Act to two years, hence John is eligible to be the registered auditor of Bakeries (Pty) Ltd as three years have already passed. An employee or consultant who has been engaged in the preparation of the financial statements for more than one year is prohibited to be appointed as the auditor of such company.

**16 B**

Fraud, including theft, is a significant deficiency by nature. Not tracking expiry dates (even on non-perishables that eventually expire) will lead to material misstatement in the inventory balance as it contributes a significant portion of the inventory balance, hence it is significant. Even if a finance division is headed by a temporary employee, it does not signal a control weakness unless the individual is not competent or unable to exercise effective oversight over the finance function. No surveillance is a control weakness that increases the risk of theft of items (hence fraud and risk of material misstatement of inventory balance). See ISA 265 A5-A7.

**17 D**

Once the audit client has authorised the auditor to request a confirmation from the financial institution, the financial institution will provide the confirmation. Therefore, point A is not a limitation. The auditor may request external confirmations as part of obtaining sufficient and appropriate audit evidence, with the client's permission, hence point B is not accurate. The confirmation is limited to those accounts listed in the request for information and therefore point D is the limitation. Point C is not a limitation, but standard practice. See SAAPS 6.7.

**18 B**

Public and state-owned companies are required to appoint a company secretary in terms of the Companies Act. This does not apply to FarmPark (Pty) Ltd as it is a private company.

A social and ethics committee is only required by private companies that have a public interest score (PIS) of above 500. Even though FarmPark (Pty) Ltd is not a public or state-owned company, it has a PIS of more than 350 and is therefore required to have its financial statements audited.

**19 C**

A more appropriate procedure would be to inspect the minutes of meetings after the date of the financial statements.

**20 C**

The auditors of Enron, Arthur Anderson, demonstrated a significant lack of independence receiving audit fees as well as fees for consultancy services. The audit team also engaged in regular hospitality with employees from Enron. Investigations into the VBS Mutual Bank scandal revealed that the designated auditor held undisclosed financial interests in the bank.

**21 D**

The internal audit function forms part of the combined assurance model. The social and ethics committee exercises oversight over corporate ethics, citizenship, sustainable development, amongst other roles. The external auditors are not a governance structure but rather an accountability structure. See King IV Code (Part 5) Principle 8 for committee roles.

**22 B**

Section 1 of the Auditing Profession Act (2005) defines a reportable irregularity (RI) as:

Any unlawful act or omission by a person responsible for the management of an entity, which

a) Has caused or is likely to cause material financial loss to the entity or to any partner, member, shareholder, creditor or investor of the entity in respect of his, her or its dealings with the entity; or
b) Is fraudulent or amounts to theft; or
c) Represents a material breach of any fiduciary duty owed by such person to the entity or any partner, member, shareholder, creditor or investor of the entity under any law applying to the entity or the conduct or management thereof.

Fraud and theft is unlawful. An RI is committed by persons responsible for management who cause a financial loss that is material to the party involved, which is unrelated to audit materiality and represents a material breach of the fiduciary duty towards the entity (not all duties are fiduciary).

**23 A**

The JSE Listing requirements sets out responsibilities for auditors (reporting accountants) to provide notification of changes (resignation or rotation) of individual auditors within 48 hours. However, failing to do so is not a circumstance on its own that could result in the JSE suspending the accreditation of an auditor, as set out in JSE Listing Requirements s22.10-11 and 22.21.

**24 C**

In point 1, the auditor is unaware of the facts and cannot be found guilty of improper conduct and held liable by the bank. In point 2, the auditor abandons their practice and arranges the dispatch of their clients' business without giving notice or getting permission from their clients, this is regarded as improper conduct in terms of paragraph 2.13 of the IRBA Rules Regarding Improper Conduct. In point 3, an auditor cannot withhold information from a successor auditor even if they resigned due to a lack of payment. In point 4, the IRBA does not deem an auditor resigning with immediate effect/with no further assistance as improper conduct in terms of quality control standards (ISQM 1 and ISA 220R). In terms of ISA 210, the auditor can resign from an audit engagement due to a limitation of scope.

**25 A**

Refer to SAAEPS 1.6 guidance on determining whether subject matter in sustainable assurance engagements is appropriate.

**Section B**

**26 (a)** Factors that impact the RoMM at the overall financial statement (FS) level (separate financial statements):

1. New audit client - Digitalectra is a new client, PROFINC having been recently appointed **(0.5 marks)**. This gives rise to a risk that opening balances and comparative information may not be correct. As the prior year figures were not audited by PROFINC, if any misstatements existed in relation to the opening balances, this would have a significant impact on PROFINC's ability to gather sufficient and appropriate evidence over closing balances. This risk is increased by the fact that, due to the planned JSE listing, management has an incentive to manipulate the opening balances. **(1 mark)**

   Digitalectra acquired 100% of the shares of WindFast Couriers (Pty) Ltd during the 20X4 year. **(0.5 mark)** There is a risk that related party transactions are not disclosed in the Digitalectra financial statements or that related party transactions are not at arm's length. If such transactions are not identified by management and/or the auditor it could give rise to risks that are not addressed in the audit, and ultimately in misstatements in the financial statements. **(1 mark)**

2. Digitalectra has experienced significant growth in the past few years. **(0.5 mark)**
   There is a risk that controls are not effectively updated to keep up with the significant growth of the company, including those controls over the preparation of the financial statements. This increases control risk. **(1 mark)**

3. The Kaiser family owns 49% shareholding in Digitalectra. As Rodwell Kaiser holds the CEO position, and his sister Caitlin Louw holds the CFO position , they are in a position to manipulate the financial statements for personal gain.**(0.5 mark)** This results in a risk that the financial statements are manipulated in an attempt to enhance profitability and the financial position. This risk is increased in light of the future JSE listing. **(1 mark)**

   Caitlin Louw is a qualified chartered certified accountant with 15 years' experience in her role **(0.5 mark)** This decreases the risk of errors in the financial statements due to her expertise and experience in the role. **(1 mark)**

4. Digitalectra intends on listing on the Johannesburg Stock Exchange **(0.5 mark)**
   There is a risk that the company might manipulate profits to meet the JSE listing requirements. **(1 mark)**

   Digitalectra implemented a new Enterprise Resource Planning (ERP) system **(0.5 mark)**. This increases control risk as follows: (**1 mark** for any of the below reasons)
   - Appropriate conversion controls may not have been in place resulting in the data transferred to the new ERP system containing errors.
   - Staff may lack experience in the using the system, which could result in errors.
   - Poor general controls may have been in place in the design of the new ERP system, which could lead to programming errors compromising the integrity of information processing.

5. The CEO of Digitalectra may have been involved in paying a bribe. **(0.5 mark)**

   The control environment of Digitalectra could be weakened due to a lack of integrity demonstrated by the CEO who may have been involved in paying a bribe increasing the control risk over the preparation of the financial statements. **(1 mark)**

Factors that impact the RoMM at the assertion level for Revenue:

1. High volume of online sales transactions. **(0.5 mark)** This results in an inherent risk of error due to a risk of the integrity of information that arises with the processing of sales data in the ledger accounts. **(1 mark)**

2. Online sales to Botswana and Madagascar are denominated in their local currency. **(0.5 mark)** There is a risk that the incorrect spot rate/rate on incorrect transaction date is used to convert the sales transaction into Rand when it is recognised in the accounting records. **(1 mark)**

3. Digitalectra inventory is also held at WindFast (Pty) Ltd. **(0.5 mark)** There is a risk that Digitalectra may have accounted for the movement in inventory to WindFast (Pty) Ltd as a sales transaction, before it has been delivered to customers resulting in overstatement of revenue in the financial statements. **(1 mark)**

4. Digitalectra charges standard delivery fees on sales. **(0.5 mark)** There is a risk the delivery fee might be a distinct good or service that is recognised as part of the main goods selling price and vice versa. **(1 mark)**

5. Presumed risk of fraud in revenue recognition. **(0.5 mark)** Due to the nature of revenue, there is a presumption that there are risks of fraud in revenue recognition in terms of ISA 315 R.27 and A29, A30. **(1 mark)**

**Note:** ISA 315 R.31a requires that when the RoMM at the assertion level is assessed, the RoMM at the overall financial statement level that affects that specific account is also assessed, however, since the first part of the required already includes the overall financial statement level RoMM it is not necessary to repeat those that specifically impact revenue as marks were already awarded.

**(b)** There appears to be an actual or suspected reportable irregularity. **(1 mark)**

A reportable irregularity is defined as any unlawful act or omission committed by any person responsible for management, which has caused or is unlikely to cause material financial loss to the entity or a third party; is fraudulent or amounts to theft; or represents a material breach of fiduciary duty owed by such a person (See section 1 of the Auditing Profession Act). **(1 mark)**

Application of theory:

- It appears that a bribe, which is a common law offence, has been paid and therefore this is an unlawful act; **(1 mark)**
- Has been committed by the CEO of Digitalectra, who is responsible for the management of the company; **(1 mark)**
- WindFast Couriers will likely lose the contract with the manufacturer of beverages. This would result in a loss of revenue that would affect the profits of the Digitalectra Group. Severe reputational damage for WindFast Couriers may also arise which could result in a loss of customers and ultimately sales (financial losses) **(1 mark)**
  Digitalectra could be fined due to the lack of integrity displayed by the CEO when he paid the bribe (resulting in financial losses for the company) **(1 mark)**
- Rodwell may not have acted in good faith if the allegations of the bribe are true, breaching his fiduciary duty. **(1 mark)**

**(c)** The board of Digitalectra comprises of a majority of non-executive directors, which complies with the King IV Code (P7.RP8) **(1 mark)**

The Digitalectra board promotes diversity as there is a variety of female, male, and age representation on the board with complies with the King IV Code (P7.RP10) **(1 mark)**
Digitalectra has appointed a lead independent director, who is an independent non-executive director, to the board, JP McIlroy, which complies with the King IV Code (P7.RP32). **(1 mark)**

Kelly is the spouse of the CEO and therefore she is not independent as she indirectly holds shares in Digitalectra and cannot be the chair of the board in terms of the King IV Code because she is not independent (P7.RP31) **(1 mark)**

In terms of the King IV Code the majority of the non-executive directors should be independent (P7 RP8). At Digitalectra only one of the five non-executive directors are independent **(1 mark)**, which contravenes the King IV Code (P7.RP8) since in addition to Kelly:

- Edward is not independent since he is an executive director of WindFast Couriers (Pty) Ltd, a related party of Digitalectra **(1 mark)**

All the board committees (audit, risk, nomination and remuneration committees) have at least three members, which is in compliance with the King IV Code (P8.RP46) **(1 mark)**

The chair of the audit committee, Edward is not independent and in contravention with the King IV Code (P8.RP57). **(1 mark)**

Rodwell, the CEO, is not independent but serves as a member of the audit committee, which contravenes the King IV Code. **(1 mark)**

Kelly, the chair of the board, is on the nomination committee, which complies with the King IV Code (P7.RP36c). **(1 mark)**

Joppie, the chair of the remuneration committee, is not independent and therefore contravenes the King IV Code (P8.RP67). **(1 mark)**

Digitalectra does not have a social and ethics committee, which contravenes the King IV Code (P8.RP68-70). **(1 mark)**

All the members of the nomination committee are non-executive directors, however none of them are independent which contravenes the King IV Code (P8.RP61) **(1 mark)**

The risk committee is duly constituted in terms of the King IV Code (P8.RP64) as it comprises of executive and non-executive directors. **(1 mark)**

The remuneration committee only has one out of three independent directors, which is not the majority and contravenes the King IV Code (P8.66) (1 mark)

**Section C**

**27** Make enquiries from the management of HillBank regarding:

i. Management's assessment of the risk that the financial statements may be materially misstated due to fraud, the nature, extent and the frequency of the assessment. **(1 mark)**
ii. Management's processes for identifying and responding to risks of fraud in the entity. **(1 mark)**
iii. Management's communication to employees (including top management) regarding its views on business practices and ethical behaviour. **(1 mark)**

Make enquiries from the chair of the audit committee of HillBank or the previous auditors (if it is a new audit client) of the company to determine if they have knowledge of any actual, suspected or alleged fraud affecting the company. **(1 mark)**

If HillBank has an internal audit function, make enquiries of appropriate individuals in the function to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the company. **(1 mark)**

Evaluate whether unusual or unexpected relationships that have been identified in performing analytical procedures may indicate a risk of material misstatement due to fraud**. (1 mark)**

Any other valid risk assessment procedure.

**28** NorthPlace makes use of freeware cloud computing that can be hacked easily and could lead to loss or stolen data. **(1 mark)**

NorthPlace's bank account details are linked to the free cloud software, making it susceptible to fraudulent activities by online perpetrators. **(1 mark)**

There is no isolation of responsibility as any one of the finance team members can make changes to employee data which would make it difficult to assign responsibility if an error is made. **(1 mark)**

The financial manager does not perform a thorough review of the payroll before authorising the figures, such as comparing the figures to deduction tables and employee contracts, so fictitious payments could be made. **(1 mark)**

There is no reconciliation performed of the payroll from month to month to identify missing data or changes in data, which could result in employees and administrators/tax authorities not being paid the correct amounts or fictitious payments being made. **(1 mark)**

There is poor segregation of duties as the financial manager has authority to approve the payroll and the payment on the banking application which could result in fictious payments being made. **(1 mark)**

**29 (a) Subsequent event discussion**

A subsequent event is an event that occurs between the date of the financial statements and the date of the audit report and relates to facts that become known after the date of the audit report. **(1 mark)** (theory)

The public announcement by ChickProcessing was made after the financial year end of 30 June 20X5 (on 5 August 20X5) and after the date of the audit report of 31 July 20X5 and the new facts are therefore subsequent events. **(1 mark)** (application)

**(b) Adjusting or non-adjusting event discussion**

Adjusting events are those events that provide evidence of conditions that existed at the date of the financial statements that need to be adjusted in the financial statements, **(1 mark)** (theory)

whereas

Non-adjusting events are events that provide evidence of conditions that arose after the date of the financial statements, which should merely be disclosed in the financial statements. **(1 mark)** (theory)

Even though the announcement was made after the financial statements were issued (on 5 August 20X5), ChickProcessing filed for liquidation during June 20X5, before 30 June 20X5, the date of the financial year end, **(1 mark)** (application)

Hence, it is an adjusting event since, already at the financial year-end of BarnField, ChickProcessing was unable to pay its full debt owed. **(1 mark)** (application)

The debtors' balance for ChickProcessing at BarnField's financial year-end should be R120,000 after an impairment (credit loss) of R1,080,000 is recognised. **(1 mark)** (application)

**30** Johnny erroneously amended the original work paper instead of preparing a work paper/separate section in the original work paper detailing the matter arising after the date of the auditor's report. **(1 mark)**

Johnny appears to have omitted details pertaining to the letter received from TrustLegal after the date of the auditor's report from the audit work paper. **(1 mark)**

Johnny did not document any additional audit procedures performed, and he did not perform additional work on the management expert work. **(1 mark)**

Johnny did not document in the conclusions reached that the circumstances encountered would result in a modification of the auditor's report and details to be disclosed in the report. **(1 mark)**

Johnny did not document that the matter gave rise to going concern uncertainty. **(1 mark)**

Johnny did not document a potential reportable irregularity arising from the misstatement, due to management's refusal to amend the financial statements, in the audit workpaper. **(1 mark)**

**Marking guide**

Marks

**Section A**

Each question is worth two marks **50**

**Section B**

**26 (a)** Award 0.5 mark for each correct risk factor and 1 mark for the explanation of the risk factor.

With a maximum of 7.5 marks for each subsection of the question.

- Candidates need to identify and explain (state what could go wrong in the preparation of the financial statements) for each risk factor.
- Since the requirement related to impact, candidates need to identify both factors that increase and decrease the Risk of Material Misstatement.
- A 0.5 mark may still be awarded to the candidate for the correctly identified risk factor, even if the explanation is incorrect.
- In terms of the RoMM related to the related party transactions risk factor, award 2 separate marks if candidates explain both the disclosure risk and the risk of transactions not being at arm's length in depth.

**(b)** One mark for each correct point, limited to a maximum of 5 marks.

Insufficient information has been provided to conclude that any third party would have suffered substantial financial losses, hence no mark to be awarded for this.

**(c)**
- Marks are awarded for critically evaluating the triggers for both compliance and non-compliance with the recommended practices of the King Code.
- Candidates do not need to provide the specific reference of the principle number and recommended practice to receive the marks.
- One mark for each correct response, maximum of 10 marks

Total.for.Section.B **30**

Marks

**Section C**

**27** One mark for each correct risk assessment procedure, limited to 4 marks

Do not award any marks for substantive audit procedures or test of controls as this is not in the scope of the required.

Do not award marks for overall responses to assessed risks of material misstatements due to fraud as this is not in the scope of the required.

Award a mark for any valid risk assessment procedure.

Total **4**

**28** One mark for each correct response, limited to 5 marks

For each response, candidates need to explain what negative consequence is linked to the control deficiency identified.

Total **5**

**29** One mark for each correct response, limited to 2 marks for part a and 4 marks for part b

Total **6**

**30** One mark for each correct response, limited to 5 marks

Total **5**

Total.for.Section.C **20**