








# Assessment of Professional Competence November 2019 Information on the day Oikos Property Group (Pty) Ltd

November 2019						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
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Inbox <b>Newly Qualified CA(SA)</b>					
 Mail   Calendar   Contacts   Tasks	 <b>INBOX</b>				
	Doc	From	Subject	Attachment	Received
	1	Henry Higgins	Assessment of risk of material misstatement in the financial statements	–	20/11/2019
	2	Gideon Madima	Audit procedures: Goodwill	<i>Oikos internal audit workpaper</i>	20/11/2019
	3	Gideon Madima	FW: Deferred tax calc	<i>Deferred tax calculation</i>	20/11/2019
	4	Gideon Madima	Potential acquisition of property	<i>Potential acquisition of Newco 667 property</i>	20/11/2019
	5	Gideon Madima	The Ziki saga continues	–	20/11/2019
	6	Yvonne Njeke	Ziki saga	–	20/11/2019
	7	Gideon Madima	Risk register	–	20/11/2019
8	Freeman Njeke	Hope for the Children Trust	<i>Hope for the Children Trust – minutes of a Board meeting</i>	20/11/2019	

Oikos Property Group (Pty) Ltd is a fictitious company, and all events as well as the names of all persons associated with this company, as mentioned in this Assessment of Professional Competence, are purely fictitious in nature and any resemblance to real persons, living or dead, or to an actual business entity, is purely coincidental.

## DOCUMENT 1

### EMAIL FROM INTERNAL AUDITOR TO NEWLY QUALIFIED CA(SA)

**From:** Henry Higgins  
**Sent:** Wednesday 20 November 2019, 7:31 AM  
**To:** Newly Qualified CA(SA)  
**CC:** Gideon Madima  
**Subject:** Assessment of risk of material misstatement in the financial statements

Gideon Madima's request that I forward the results of internal audit's assessment of the risk of material misstatement for each of the line items in the 2019 annual financial statements to you refers.

I am not quite sure whether we are on the right track, given that the external auditors have in previous years not placed much reliance on our risk assessment. Therefore I am forwarding our assessment of the risk of material misstatement for the 'investment properties' account balance to you first. We would like to use your inputs to complete the rest of the exercise.

This is what we have done so far:

	<b>2019</b>	<b>2018</b>
	<b>R'000</b>	<b>R'000</b>
Investment properties	1 173 857	1 044 906
% change on previous year	12,3%	15,8%
% of total assets	95%	94%

#### **Assessment of risk of material misstatement: HIGH**

##### **Justification**

- The balance represents by far the largest account balance in the 2019 statement of financial position;
- There has been a large increase in the account balance from the prior financial year, and the amount may have been misstated if the valuation was not done correctly; and
- A new shopping centre was acquired during the year, and the costs relating to this may have been capitalised incorrectly.

Are you in agreement with this risk assessment, and the justification for it? If not, please provide us with a revised risk assessment for 'investment properties' to use as an example / template on which to base the risk assessments for the rest of the items in the financial statements. Please also include a detailed explanation / justification as to how you arrived at your conclusion(s) – that will help us to understand the thought process to be followed.

Your assistance will be greatly appreciated!

Kind regards

Henry


**Head of Internal Audit: Oikos Property Group**

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## DOCUMENT 2

### EMAIL FROM CHIEF FINANCIAL OFFICER TO NEWLY QUALIFIED CA(SA)

**From:** Gideon Madima  
**Sent:** Wednesday 20 November 2019, 8:20 AM  
**To:** Newly Qualified CA(SA)  
**CC:** Henry Higgins  
**Subject:** Audit procedures: Goodwill

**Attachment:**  Oikos internal audit workpaper.docx  
11 KB

Hi

In prior years, Izza & Associates has always placed reliance on the work our internal auditors have undertaken regarding the goodwill amount. The list of audit procedures that were undertaken to verify the goodwill amount reflected in the balance sheet at 30 September 2018 (as received from Henry Higgins, our Head of Internal Audit) is attached to this email.

Your assistance is needed in considering the continued appropriateness of these procedures given that the sale of shares reduced our interest in Kasuba LLC from 80% to 60%; the internal auditor (Jill Jackson) who formulated these procedures is no longer in our employ; and none of the remaining internal auditors are particularly knowledgeable about the IFRSs.

As far as the sale of shares is concerned: A revised shareholders' agreement was concluded with regard to shareholders' decisions. It basically states that all of the shareholders have voting rights in proportion to their ordinary shareholdings, with the exception of a couple of decisions that require the unanimous consent of all shareholders. Not sure if this will impact on the audit of goodwill though.

In summary, regarding this matter, please prepare and send a memorandum to Henry Higgins (and a copy to myself) dealing with the following:

- The continued appropriateness of the audit procedures conducted in 2018 for the 2019 financial audit.
- The additional audit procedures, if any, that should be performed on the 2019 audit. Please ensure that your audit procedures are detailed, so that the more junior members of the team can understand what needs to be done.
- Any other matters that you think that we should be aware of.

Thanks a mil!

PS: Not sure if you need this, but the group initially measures any non-controlling interest at its proportional share of the subsidiary's net assets at acquisition.

Regards  
Gideon

**CFO:** Oikos Property Group

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**Oikos internal audit workpaper****Subject: Audit procedures for goodwill at 30 September 2018****Prepared by: Jill Jackson**  
**Preparation date: 15 October 2018****Reviewed by: Henry Higgins**  
**Review date: 18 October 2018****Objective**

This audit programme has been formulated and undertaken to provide sufficient appropriate evidence that the 'goodwill' figure reflected in the 2018 annual financial statements is free from material misstatement.

<b>Audit procedure</b>	<b>Finding</b>
1. Inspect the accounting policy for goodwill in the notes to the financial statements, and compare this to that used in the prior financial year and to IFRS requirements.	Done – no changes identified. The accounting policy for the recognition and measurement of goodwill is consistent with the IFRS requirements.
2. Agree the balance on the 'goodwill account' in the general ledger to the figure reflected in the draft statement of financial position at 30 September 2018.	Done – the amounts are in agreement.
3. Request the workings used to arrive at the balance on the 'goodwill account' and – <ul style="list-style-type: none"> <li>a. agree the goodwill amount (in Zambian kwacha) used in the workings to the figure computed at the date when the shareholding was acquired;</li> <li>b. verify, by confirmation with the company's bankers, the exchange rate of the Zambian kwacha to the South African rand at 30 September 2018; and</li> <li>c. re-perform the calculation to translate the goodwill amount from Zambian kwacha into South African rand.</li> </ul>	<p>Obtained schedule reflecting workings.</p> <p>Done by inspecting the external auditor's workpaper prepared during the 2010 financial year (the last time the external auditor performed detailed work on this figure).</p> <p>Done by confirming the exchange rate with XYZ Bank.</p> <p>Done – the figure was correctly computed.</p>
4. Request that the CEO signs a representation to the effect that the 'goodwill' balance is fairly presented in the 2018 annual financial statements.	Done – the CEO's representation has been filed in the 2018 audit pack.

**Conclusion**

Based on the audit procedures performed, it can be concluded that the 'goodwill' figure, as reflected in the 2018 annual financial statements, is free from material misstatement.

## DOCUMENT 3

### EMAIL FROM CHIEF FINANCIAL OFFICER TO NEWLY QUALIFIED CA(SA)

**From:** Gideon Madima  
**Sent:** Wednesday 20 November 2019, 8:45 AM  
**To:** Newly Qualified CA(SA)  
**CC:**  
**Subject:** FW: Deferred tax calc

**Attachment:**  Deferred tax calculation.xlsx  
7 KB

Hi again

I attach Leonard's deferred tax calculation. Kindly critically review his workings and inputs and provide comments or questions for his consideration. I do not want you to redo the calculations – just point him in the right direction. Though he is not a CA(SA), he is a BCom Accounting graduate and I'm sure he can get it right with guidance from a knowledgeable person such as yourself.

There is no need for you to check casting or mathematical accuracy of the workings.

PS: I don't expect you to know Zambian tax legislation (yet). In a nutshell, the Zambian Revenue Authority deems the Kasuba property to be an 'industrial building' (as it cost more than 2 million kwacha and is being used for business purposes). The Authority grants an initial capital allowance of 10% on such buildings, plus a wear-and-tear allowance of 5% per annum thereafter (in terms of section 33 and the Fifth Schedule of the Zambian Income Tax Act).

Kind regards  
Gideon

**CFO:** Oikos Property Group

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<<forwarded email>>

*From: Leonard van Dyk  
Sent: Wednesday 20 November 2019, 6:25 AM  
To: Gideon Madima  
Subject: Deferred tax calc*

*Hi Sir*

*Please find attached the deferred tax calc as requested. Apologies that you had to wait until I returned from leave.*

*Regards  
Leonard*

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**ATTACHMENT TO EMAIL**  
**DEFERRED TAX CALCULATION**

<b>OIKOS PROPERTY GROUP</b>			
<b>DEFERRED TAX CALCULATION AS AT 30 SEPTEMBER 2019 (CONSOLIDATED)</b>			
	<b>Carrying amount</b>	<b>Tax base</b>	<b>Note</b>
	<b>R'000</b>	<b>R'000</b>	
	<b>Dr / (Cr)</b>	<b>Dr / (Cr)</b>	
Investment property	1 173 857	758 082	
• Foreign: Zambia (5% of total value)	58 693	49 911	1
• Local – rented out (93% of total value)	1 091 687	708 171	1
• Local – used as own offices (2% of total value)	23 477	–	2
Office equipment	500	380	1
Goodwill	3 887	–	3
Operating lease asset (20 484 + 9 545)	30 029	–	4
Trade and other receivables	14 030	14 030	
Cash and cash equivalents	16 045	16 045	
Interest-bearing borrowings (215 000 + 55 900)	(270 900)	(270 900)	
Deposits received	(4 050)	(4 050)	
Trade and other payables	(21 382)	(21 382)	
Taxation payable	(1 971)	(1 971)	
	940 045	490 234	
Temporary difference (taxable) (940 045 – 490 234)		449 811	
X 28% tax rate		125 948	
<b>Notes</b>			
1	The tax base is the amount of remaining capital allowances to be granted under applicable tax legislation.		
2	No capital allowances are available on administrative buildings; i.e. the portion of our investment properties used for own office space.		
3	The tax authorities do not grant any capital allowances on goodwill.		
4	The tax authorities do not straight-line leases and hence a temporary difference arises.		

## DOCUMENT 4

### EMAIL FROM CHIEF FINANCIAL OFFICER TO NEWLY QUALIFIED CA(SA)

**From:** Gideon Madima  
**Sent:** Wednesday 20 November 2019, 9:00 AM  
**To:** Newly Qualified CA(SA)  
**CC:**  
**Subject:** Potential acquisition of property

**Attachment:**  Potential acquisition of Newco 667 property.xlsx  
7 KB

Hi

The executive directors have been exploring the acquisition of an existing shopping centre in the Pretoria central business district for the past couple of months. The property is owned by Newco 667 (Pty) Ltd, a company that Yvonne (our CEO) and her brother-in-law set up in 2012. They each own a 50% share in Newco 667, which only has a single property.

Yvonne and her brother-in-law are keen to sell the property to Oikos as they believe it could be better managed by us and it would bulk up Oikos's portfolio. They proposed that Newco 667 sell the property to Oikos for R100 million. Oikos would not take over any other asset or liability of Newco 667 – it will be a simple transaction with Oikos buying the shopping centre.

Over the weekend I did some work on an Excel spreadsheet to evaluate the potential return on the investment of acquiring the Newco 667 property – refer attached. I spoke to our bank last week and it indicated it would be prepared to advance a loan of R75 million to partially fund the property acquisition. The interest rate would be 10,0% nominal annual (paid quarterly in arrears) and the loan would be repayable in a single bullet repayment at the end of five years.

The historical rental income and property expenses in the attached Excel model were obtained from the audited financial statements of Newco 667. The forecast vacancies, rental income increases and property expense increases were supplied by Newco 667's accountant.

Please review and critically comment on the attached Excel spreadsheet. Given that I used Excel to perform the modelling, you may assume the mathematical workings are accurate.

Thanks  
Gideon

**CFO:** Oikos Property Group

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**ATTACHMENT TO EMAIL**

**POTENTIAL ACQUISITION OF NEWCO 667 PROPERTY**

<b>R'000</b>	<b>Historical</b>			<b>Forecast</b>				
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
Rental income	13 500	13 892	14 225	15 241	16 482	17 821	19 068	20 403
Property expenses	(5 683)	(5 996)	(6 386)	(6 737)	(7 074)	(7 428)	(7 799)	(8 189)
<b>Net rental income</b>	<b>7 817</b>	<b>7 896</b>	<b>7 840</b>	<b>8 504</b>	<b>9 408</b>	<b>10 393</b>	<b>11 269</b>	<b>12 214</b>

GLA (m <sup>2</sup> )	10 200	10 200	10 200	10 200	10 200	10 200	10 200	10 200
Vacancies as a % of GLA	5,0%	6,0%	7,0%	6,0%	5,0%	4,0%	4,0%	4,0%
Average monthly rental per m <sup>2</sup>	R116,10	R120,74	R124,97	R132,47	R141,74	R151,66	R162,28	R173,64
Increase in average monthly rental	4,5%	4,0%	3,5%	6,0%	7,0%	7,0%	7,0%	7,0%
Annual increase in property expenses	6,0%	5,5%	6,5%	5,5%	5,0%	5,0%	5,0%	5,0%

<b>Property acquisition loan terms</b>	
Initial advance (R'000)	75 000
Interest rate	10,0%
Loan period	5 years
Bullet repayment (R'000)	75 000



R'000	2019	2020	2021	2022	2023	2024
Advance/repayments	75 000					(75 000)
Interest payments		(7 500)	(7 500)	(7 500)	(7 500)	(7 500)
<b>Total payments</b>	<b>75 000</b>	<b>(7 500)</b>	<b>(7 500)</b>	<b>(7 500)</b>	<b>(7 500)</b>	<b>(82 500)</b>

<b>Cap rate</b>	9,0%
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R'000	2019	2020	2021	2022	2023	2024
Acquisition cost	(100 000)					
Loan advance/repayments	75 000					(75 000)
Interest paid		(7 500)	(7 500)	(7 500)	(7 500)	(7 500)
Net rental income		8 504	9 408	10 393	11 269	12 214
Hypothetical exit value						135 713
<b>Forecast cash flows</b>	<b>(25 000)</b>	<b>1 004</b>	<b>1 908</b>	<b>2 893</b>	<b>3 769</b>	<b>65 427</b>

<b>IRR</b>	26,6%
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## DOCUMENT 5

### EMAIL FROM CHIEF FINANCIAL OFFICER TO NEWLY QUALIFIED CA(SA)

**From:** Gideon Madima  
**Sent:** Wednesday 20 November 2019, 9:15 AM  
**To:** Newly Qualified CA(SA)  
**CC:**  
**Subject:** The Ziki saga continues

Hello

OK, so the meeting of creditors to approve the Ziki business rescue plan took place on Monday. Ziki's creditors agreed to a final settlement and the company will remain listed on the Johannesburg Stock Exchange. While the settlement terms are the same as in my 15 November email to you, it was agreed to drop the Tranche A shares and insert a cash settlement of 75 cents in the rand for the outstanding debt instead. The Tranche B equity to be received upfront in exchange for a reduction of 30% in rentals for the next three years stays exactly the same as previously mentioned.

The number of shares under Tranche B will give us a 12% holding in Ziki and the Memorandum of Incorporation will allow us to appoint one member to Ziki's board.

I urgently need to draw up a memo for circulation to the Board. To assist me with this, kindly send me an email in which you summarise the likely accounting and tax (income tax and VAT) implications resulting from the business rescue settlement agreement.

You can ignore the deferred tax consequences with regard to the accounting implications.

Kind regards  
Gideon

**CFO:** Oikos Property Group

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## DOCUMENT 6

### EMAIL FROM CHIEF EXECUTIVE OFFICER TO NEWLY QUALIFIED CA(SA)

**From:** Yvonne Njeke  
**Sent:** Wednesday 20 November 2019, 9:20 AM  
**To:** Newly Qualified CA(SA)  
**CC:**  
**Subject:** Ziki saga

Hi

I am sure that Gideon would have told you by now that as part of the negotiated settlement with the business rescue practitioner, Oikos agreed to a 30% reduction in the rental income to be received from Ziki for the next three years in exchange for a 12% shareholding in Ziki. We apparently also get a seat on their board.

I know it is too late for Oikos to change its mind, but what key factors should we have considered prior to the creditors' meeting to vote on the business practitioner's proposal? In hindsight, I am not convinced that we made the right decision to reduce our rentals and take an equity stake in Ziki.

Please be honest, I will not take your views to be a criticism of the Oikos management's decision.

Kind regards  
Yvonne

**CEO:** Oikos Property Group

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## DOCUMENT 7

### EMAIL FROM CHIEF FINANCIAL OFFICER TO NEWLY QUALIFIED CA(SA)

**From:** Gideon Madima  
**Sent:** Wednesday 20 November 2019, 9:21 AM  
**To:** Newly Qualified CA(SA)  
**CC:**  
**Subject:** Risk register

Hi

You must be tired of getting emails from me today!

The key risks facing Oikos were summarised in that PowerPoint presentation Yvonne emailed to you in October 2019 (I think it was in section 8?). Are they genuinely the main risks Oikos is facing? If we had to formulate the top seven risks facing Oikos, which do you think these are? Feel free to replace any of the five risks included in that PowerPoint slide. Be good to get your input. Thanks.

You can assume that these seven key risks would only be for our internal use at board and executive level and that we would never publish it to external parties. Please add a brief explanation of the top seven risks and the potential impact on Oikos, regardless of whether these are some of the previously identified risks or additional risks you identified.

Also, on the topic of risk management: As chair of the task team dealing with the roll-out of the free wi-fi in our properties, I have identified the need to update the risk register relating to this.

I have prepared the following – please evaluate this, and let me know if I have missed anything important.

Risk	Response
The wi-fi functionality may not be adequate or may be unavailable at times, resulting in unhappy customers and a loss of footfall in our shopping centres.	Appoint a reputable company to install the wi-fi equipment, and test the system at pilot sites before rolling it out to all shopping centres.
The cost of acquiring and installing the wi-fi facility may exceed the revenue that can be earned from it – causing a direct financial loss to Oikos.	Undertake research to determine what revenue can be earned from advertising to customers using the wi-fi network, and from the sale of customer data collected to tenants and other retailers.

Regards  
Gideon


**CFO:** Oikos Property Group

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## DOCUMENT 8

### EMAIL FROM CHIEF FINANCIAL OFFICER: HOPE FOR THE CHILDREN TRUST TO NEWLY QUALIFIED CA(SA)

**From:** Freeman Njeke  
**Sent:** Wednesday 20 November 2019, 9:45 AM  
**To:** Newly Qualified CA(SA)  
**CC:**  
**Subject:** Hope for the Children Trust

**Attachment:**  Hope for the Children Trust – minutes of a Board meeting.docx  
11 KB

Hi there!

I am so delighted that you are considering joining our Board of Trustees – we can certainly do with a CA(SA) in our ranks.

Unfortunately you will earn no remuneration for your work as a trustee. However, you must know that if you conduct yourself appropriately, I will ensure that doors are opened for you to bigger and greater things at Oikos.

In preparation of our next Trustees meeting, I have deemed it appropriate to send you the minutes of our most recent meeting. We can attend to the paperwork relating to your appointment as soon as you come on board.

Our next meeting will take place on 26 November 2019 at 17:00 in the Oikos boardroom.

Please let me know if there is anything that you would like to place on the agenda. Also, I would appreciate it if you could share any thoughts you have on improving the governance and/or funding of the Trust with me.

Best wishes

Freeman Njeke  
Chairman: Hope for the Children Trust

## ATTACHMENT TO EMAIL

# HOPE FOR THE CHILDREN TRUST

## MINUTES OF THE MEETING OF THE BOARD OF TRUSTEES HELD ON 15 JULY 2019

### Trustees

Mr Freeman Njeke, non-executive chair  
Mr Rolihlahla Njeke, CEO  
Mr Hendrik Jooste, principal of TipTop High School  
Mr James Kolisi, past beneficiary of the bursary scheme

### Apologies

None

### Minutes of the previous meeting

The minutes of the meeting of 7 March 2019 were considered, and approved without amendment.

### Bursary allocations: 2019

The CEO noted that the bursary budget of R7,6 million approved by the Trustees for the 2019 year was allocated as follows:

- 100 bursaries of R75 000 each were allocated to deserving learners from communities located in the vicinity of the Oikos shopping centres. This funding enabled the learners to register at good private schools in their areas; and
- R100 000 was paid to Rolihlahla Njeke to administer the process of bursary allocations.

Mr Jooste questioned why only 15 learners were placed at TipTop High School, and argued that those who were placed at this school in previous years had performed well academically. He therefore urged the Trust to increase the allocation to this school for the 2020 year. This request was noted.

### Funding arrangements

The CEO expressed his frustration at being unable to allocate more bursaries due to the cash-flow difficulties being experienced by the Trust. Not only did the Trust have to pay 10% per annum on the loan to the Njeke Family Trust, but also interest on the bank financing. With little dividends being declared by Oikos (and resulting cash flows), the CEO noted that the Trust was having to fund its operations mainly by means of the Trust's bank overdraft facilities.

It was agreed that the success stories from the Hope for the Children Trust be publicised in the media with the view to raising funding from corporate donors. It was further agreed that in order to facilitate this, it was necessary that the financial statements of the Trust be audited and that a CA(SA) be appointed to the Board of Trustees.

The CEO questioned whether the audit would be able to evaluate how the bursaries were allocated, as the paper trail was not very strong. Accordingly, to minimise unnecessary problems,

the Trustees resolved that Izza & Associates be approached to perform the work. The extensive work that this firm performs for the Njeke family and its business interests makes it more likely that a favourable auditor's report will be issued. It was further resolved that the CEO approach Gideon Madima to identify a CA(SA) who would be able to lend financial credibility to the Board of Trustees.

#### Any other urgent matters

Mr Freeman Njeke questioned whether the Trust was missing a fund-raising opportunity because it was not purchasing properties which the trust and its trustees know would be of interest to Oikos. These properties could then be sold to Oikos after about six months at a significant profit.

The Board resolved that Mr Freeman Njeke inform the Board via email of any properties that he thought could yield a good return for the Trust with minimal risk. Any decision to proceed will be taken by majority approval, and executed by the Trust's CEO.

#### Closure

There being no other business to discuss, the meeting was closed by the Chair. He thanked all the trustees for their time and commitment to the success of the Trust.