



Initial Assessment of Competence

Professional Paper 3

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Part (c) Discuss any ethical concerns you may have arising from the way in which Beita Furniture is managed.		Marks
1	Non-compliance with laws and regulations	
1.1	<u>Payment below minimum wage:</u> <i>Illegal</i> - The company pay its employees at rates below the legislated minimum wages and therefore do not adhere to National Minimum Wage Act. <i>Other ethical frameworks</i> - Dino has also indicated it will only apply for exemption if someone asks for it, which appears to be dishonest business dealings and is unfair for employees, the employees will have less disposable income to spend, which will have a negative impact on the employees and their families.	1 1
1.2	<u>Purchasing of pallets:</u> <i>Theft</i> - The company is purchasing pallets that could potentially be stolen goods (other company's name, price clearly not market-related) and may not be in compliance with the Prevention and Combating of Corrupt Activities Act.	1
1.3	<u>Appointment of auditors s90 Co Act:</u> The directors appointed auditors who also perform management functions, such as tax returns and compilation of financial statements, resulting in a breach of s90(2) of the Companies Act.	1
1.4	<u>Payment of dividends Co Act:</u> It appears that the requirements of the Companies Act to perform a liquidity test have not been performed as Beita is paying dividends when they are only performing a solvency test and no liquidity test.	1
1.5	<u>Transfer of assets to Beita Furniture:</u> The company acquired the assets of an NPO. Assets of an NPO may only be <i>used for the purposes</i> / objective for which it was set up and upon dissolution should go to a similar NPO. In addition, the assets were <i>transferred at net book</i> value and not at its fair market value. Transferring those assets at net book value into a for-profit company for the private benefit of Dino and Sipiwe potentially breaches the conditions of the public benefit organization approval in terms of the Income Tax Act and the dissolution rule that such assets should pass to a similar organization.	1B 1B 1B
1.6	<u>Labour Laws:</u> It appears that no UIF or SDL is being paid on the salaries. The amounts projected are still the same as the gross salaries (rather than cost to company). This is non-compliance with UIF and SDL legislations.	1B
1.7	There is no HR Department in place, as well as evidence of missing HR documentation (e.g., Abulele's contract) – This may be intentional to conceal the entities compliance with labour law	1B
2	Conflicts of interest	
2.1	<u>Conflict in appointing service provider</u> Dino did not excuse herself from any decisions regarding the purchase of pallets in which her boyfriend had a direct financial interest in terms of the Companies Act, section 75. Dino has abused her position to gain an (unfair) advantage over the company hence the decision is not for the best interest of the entity or aligned to his fiduciary duties	1 1

2.2	<u>Conflict in appointing auditors</u> Beita appointed auditors where Siphiwe's brother will be the audit partner – this conflict of interest will negatively impact the auditor's independence and objectivity. <i>Due to the lack of independence, the audit opinion may be incorrect, and users could make incorrect decisions in relying on it.</i> The appointed auditor seems to possibly lack the necessary skills and experience (as they do not specialise in the industry) as well as staffing (only 1 staff member assigned) <i>Due to the lack of necessary skills, the audit opinion may be incorrect, and users could make incorrect decisions in relying on it.</i>	1
2.3	Continued donations towards Beita Furniture's: The directors <i>deliberately included the name of the NPO</i> in the new name of the formed company, thereby causing possible confusion and may leave the donors with the impression they are dealing with an NPO and not a for-profit company. (This also goes against Companies Act section 11(2)(a).) At the point where the new company was incorporated, it will be a concern whether Beita <i>informed the current suppliers</i> (relating to the rental of R500 / pallets at R10 each). The suppliers might be agreeing to lower rates because they think that they are still assisting the community with the projects.	1
3	Competence and due care (section 76 of the Companies Act)	
3.1	Beita is appointing staff who might not have the necessary skills and experience for the positions (Zolani) which is not in the best interest of the entity as Zolani will be inexperienced to appropriately perform his duties.	1
3.2	Beita is paying dividends when it appears the company does not have sufficient liquidity (applying for a loan), which indicates a lack of due care in managing operations.	1
3.3	The directors have not put appropriate safeguards in place in respect of conflicts of interests.	1
3.4	Due to various laws and regulations not being adhered to, it does appear the directors are running a company without the relevant knowledge and experience to do so.	1
4	Integrity and 'fair business dealings'	
4.1	Dino and Siphwe were able to appoint Zolani at a very low salary for a candidate with her qualifications. This does not seem to be good business dealings, and such employees will not remain with a company for long before moving to a business that would pay her a market-related fee. This will not be good for the company to rotate finance staff in the long run.	1
4.2	Dino and Siphwe closed the NPO in favour of a profit company which may not be in stakeholders' best interest (e.g., loss of skills development opportunities) / Zolani was appointed at a very low salary (any valid example from case study)	1
	Available	22
	Maximum	10
	Total for part (c)	10

Part (d) Discuss the matters Fezile, as auditor, should consider in reaction to the WhatsApp conversation between Zolani and Abulele, taking all other relevant information into consideration.		Marks
Do not discuss any detailed steps Fezile should take in reaction to the concerns.		
1	According to the WhatsApp Zolani sent to Abulele, Dino, the CEO, provided her with the wage rate, being R25 per hour (included in appendix 1) and made it clear that it would not increase in the foreseeable future. This is below the minimum wage rate of R28,79 per hour, as per the National Minimum Wage Act (read with the Basic Conditions of Employment Act).	1
2	NOCLAR (SAICA CoPC)	
2.1	Fezile, as a registered auditor in practice would need to comply with parts 1, 3 and 4A of the SAICA Code of professional conduct.	1
2.2	He must thus consider whether the wage payment below the legal minimum wage constitutes a possible NOCLAR in terms of the definitions and section 360 of the SAICA CoPC.	1
2.2	The payment of R25 per hour to the trainee carpenters is below the <u>stipulated rate by the National Minimum Wage Act and is an act of non-compliance contradictory to the Basic Conditions of Employment Act</u> , which is fundamental to the operating aspects of the business.	1
2.3	The act is <u>intentional</u> , for it was a clear instruction regarding the employees' wage	1
2.5	The CEO of Beita gave the instruction to pay R25 per hour (involvement of <u>management / those charged with governance</u>).	1
2.6	It does constitute a possible NOCLAR to which Fezile needs to react according to section 360 of the SAICA CoPC and report to the appropriate authority.	1
2.7	In terms of S360 (paragraph 2) a self-interest threat is created to the fundamental principles of integrity and professional behaviour of Fezile if he fears losing Beita as a client by raising the NOCLAR and/or is discouraged from responding appropriately.	1
3	Fezile, the lead engagement partner, needs to consider whether this constitutes a reportable irregularity in terms of section 1 (definitions) of the Auditing Profession Act.	
3.1	The wage that is lower than the minimum wage is <u>unlawful act because it is contrary to the Basic Conditions of Employment Act, because Beita should be paying R28,79 per hour according to a law and only paying R25.</u>	1
3.2	The wage rate was communicated to Zolani by Dino, the CEO (a member of <u>management</u> of Beita).	1
3.3	This would constitute a <u>material breach in fiduciary duty</u> as the CEO is not acting in the best interests of the contractors, which is not in good faith.	1
3.4	The Department of Labour could impose a fine and/or penalty on Beita Furniture and thus this act could cause financial loss to the entity.	1
3.5	Therefore, this would constitute a reportable irregularity , and the auditor would have to take the necessary steps as provided in section 45 of the Auditing Profession Act.	1
4	Sections 44(2) and 44(3) of the Auditing Profession Act According to these sections, the auditor should not issue an unqualified audit report if the auditor has reported a reportable irregularity that has not been finalised. Because the non-compliance with the Basic Conditions of Employment Act constitutes a reportable irregularity; this should be considered.	1

5	Other	
	Fezile should consider whether the non-compliance by Beita with the National Minimum Wage Act has a direct effect on the financial statement amounts and disclosures in terms of ISA 250. Fezile should consider the integrity of the client and whether they should continue their involvement with Beita in future audit engagements. Fezile should consider the impact of non-compliance and the integrity of Beita's management on the audit risk assessment and audit process: e.g., Fezile should consider the impact of the illegal activity and client integrity on planning considerations such as increased risk of material misstatement at financial statement level, audit approach and risk responses (incorporating unpredictability, professional scepticism, Fezile's direction and supervision during the audit). e.g., The non-compliance may lead to reputational damage of Beita Furniture and this, together with any fines/penalties, will need to be considered by Fezile during the Going concern assessment of the company. e.g., The lack of available formal employment contract indicates potential weaknesses in payroll controls (proper documentation) and a weak control environment. This may result in increased risk of misstatement of employee costs which should be responded to in the audit plan.	1 1 1 1 1 Max 3
Available		19
Maximum		9
<i>Y2: Integrative thinking</i> <i>Refer to at least two different sources (APA, CoPC, Companies Act or other general considerations) in formulating the engagement partner's response</i>		1
Total for part (d)		10

Part (e) Describe the substantive procedures the auditor would perform on the issue of shares and the dividend payment made by Beita Furniture during FY2025.		Marks
- Do not discuss audit procedures related to the following: - Management representations; - Analytical procedures; - Notices of and quorums at any meeting; and - Presentation and disclosure requirements.		
The following substantive procedures would be performed to obtain sufficient appropriate audit evidence about the issuing of shares and the dividend payment made during FY2025:		
1	General procedures	
1.1	For the issuing of shares: Obtain the securities register of Beita and compare the value of the total issued shares to the respective journal entries, general ledger, trial balance, and financial statements.	1
1.2	For the dividends: Obtain the schedule of dividends paid and compare it to the dividends paid journal entry, general ledger, trial balance, and financial statements.	1
1.3	Reperform casting and cross casting of the schedule/details of dividends and securities register to ensure the mathematical accuracy thereof.	1
1.4	Scrutinise the schedule of dividend payments and securities register to identify any unusual items , for example: On the schedule of dividend payments: instances where the dividend per share is not R0,20, duplicate payments to a shareholder, zero payment to a shareholder, etc. On the securities register: more or less than four shareholders, empty fields (shareholders with no shareholding interest, no shareholder name, etc.)	1 1
1.5	For any unusual items identified or any discrepancies in any audit procedures, follow up with management and obtain corroborative evidence to support management's explanation; or request that management processes a correction.	1
2	Issuing of shares	
2.1	Inspect the Memorandum of Incorporation (MOI) to verify and confirm that the authorised share capital is 150 000 shares.	1
2.2	Inspect the MOI for any prohibitions or limitations on the ability of Beita to issue shares.	1
2.3	For the shares issued to the <i>founding directors</i> (1 January 2025), inspect the minutes of the board: - To confirm that the issue of 37 500 shares to each director was duly authorised (unless the MOI states otherwise); and - That the board resolved that the consideration for the shares be in the form of the book value of the assets from the NPO	1 1
2.4	Inspect the fixed assets register of Beita Furniture to verify that the assets from the NPO were recorded in Beita Furniture's records before the shares were issued.	1
2.5	Inspect the share register to ensure that 37 500 shares each were issued to Dino and Sipiwe at incorporation on 1 January 2025.	1
2.6	For the shares issued to <i>Joseph and Fulani (employees)</i> on 31 July 2025, inspect the minutes of the board meeting held on 3 July 2025 to ensure that: - the issue of 12 500 shares each to Joseph and Fulani was approved by both Sipiwe and Dino (a documented resolution); - Sipiwe and Dino, in their capacity as current shareholders of a private company, did not want to take up the additional shares themselves; and	1 1

	- Siphiwe and Dino, as directors of the company, confirmed that the shares will be issued at R0,01 per share; - consider, through inspection of supporting documentation such as share valuations, whether the issue price of R0.01 per share is appropriate or reasonable consideration in terms of the Companies Act.	1
		1
2.7	Using the MOI (for the authorised number of shares) and the share register (for the total number of issued shares): recalculate the number of shares that may still be issued / available for issue (unissued shares) and compare the number of available shares to the 25 000 shares issued to Joseph and Fulani, to determine that Beita had sufficient authorised shares to be issued.	1
2.8	Inspect the bank statement to verify that two deposits of R125 each were received before the shares were issued. (fully paid consideration –section 40 of the Companies Act).	1
2.9	Inspect the securities register at 31 December 2025 to verify that Dino, Siphiwe, Joseph and Fulani's shareholdings and other details are captured according to the details in the MOI and minutes of the board meeting held on 3 July 2025.	1
2.10	Inspect copies of share certificates issued to Dino, Siphiwe, Joseph and Fulani, and verify that the shareholdings, names and other details are accurate.	1
3	Dividend payments	
3.1	Inspect the MOI to ensure that dividend payments are allowed and that there are no restrictions and that there are no additional requirements that need to be met.	1
3.2	Inspect the minutes of the board meeting held on 4 December 2025 to confirm: - that the dividend declaration was approved; - the dividend amount of R0,20 per share; and - that the directors considered and concluded that the requirements of the solvency and liquidity test were complied with as per the Companies Act.	1 1 1
3.3	Confirm, by inspection of the security register, that the respective shareholders qualify for the dividend (that they were valid shareholders on 4 December 2025).	1
3.4	Compare the number of shares in the schedule of dividends to the securities register.	1
3.5	Recalculate the dividend payable by multiplying the number of shares each shareholder holds on this date with R0,20 per share.	1
3.6	Inspect the bank statements and cash payment journals and confirm that – - the amount of dividends paid to each individual shareholder, as well as the total dividends, agree with the dividend approved at the directors' meetings and the schedule of dividends; and - the date of payment was indeed 30 December 2025 (less than 120 business days after the approval of the dividend).	1 1
4	With regard to the solvency and liquidity test	
4.1	Inspect the accounting records used by the directors to perform the solvency and liquidity test to ensure that the directors' calculations were based on accurate and complete accounting records and financial statements.	1
4.2	Reperform the solvency and liquidity test based on the accounting records, which need to comply with IFRS, to confirm that the test was applied the test correctly (including whether the company can pay its debts in the ordinary course of business for the following 12 months and recalculating the net asset value of the company to ensure that the assets, fairly valued, exceed the liabilities, fairly valued).	1

5.	Taxation payable on dividends paid	
5.1	Reperform the calculation of the dividends withholding tax using the amounts as per the dividends schedule and the applicable tax rate (20%), as per the provisions of the tax legislation.	1
5.2	Inspect the provision of the payment (or the bank statement) and the SARS documentation / returns submitted for the taxation payable (withholding) on the dividend declaration and if accounted for respond appropriately.	1
Available		33
Maximum		23
<i>X1: Communication skill – clarity of expression Formulating clear, understandable and executable audit procedures using appropriate verbs</i>		1
Total for part (e)		24
Total for part II		44