

Part (c) Discuss whether the auditors will be permitted, in terms of the Companies Act and the SAICA Code of Professional Conduct, to prepare journal entries related to the sale of the shares in Pharmcon.		Marks
1	<b>Sec 84(1)(a)</b> states that chapter 3 of the Companies Act <b>applies to all public companies</b> . As PriceRight is a <b>listed public company (and therefore, a public company in terms of the Companies Act)</b> , sec 90 to 94 will be applicable.	1
2	<b>Sec 90 considerations</b>	
	In terms of sec 90(2), the <b>auditor may not perform the duties of an accountant or bookkeeper habitually and regularly</b> (s90)(2)(b)(iv).	
2.1	Preparing the <b>journal entries for the sale</b> of the shares in Pharmcon will be <b>necessary to prepare the financial statements</b> and thus constitute taking on the duties of an accountant.	1
2.2	<b>'Habitually' or 'regularly' is not defined</b> , but as the sale of the shares in Pharmcon is likely to be a <b>once-off event/not repeated annually</b> , it is <b>unlikely</b> that this would be defined as <b>'regularly' or 'habitually'</b> .	1
3	<b>Sec 93 considerations</b>	
3.1	In terms of sec 93(3) 'An auditor appointed by a company may not perform any services for that company that would place the auditor in a <b>conflict of interest</b> as prescribed or determined by IRBA in terms of section 44(6) of the APA or as may be determined by the company's audit committee in terms of sect 94(7)(d)'. The auditors will face a <b>conflict of interest</b> if they prepare <b>journal entries</b> for the <b>same company</b> for which an <b>audit opinion will be expressed</b> .	1
4	<b>Sec 94 considerations</b>	
4.1	The audit committee must <b>consider whether the auditor's independence may have been prejudiced</b> , having regard for the extent of any work undertaken by the auditor for the company (s94(8)(b)(ii)). In considering independence, the audit committee must <b>consider any criteria relating to independence prescribed by the IRBA</b> ((s94(8)(c)) of which preparation of journal entries may jeopardise independence.	1
4.2	The audit committee must <b>pre-approve any non-assurance services</b> performed by the auditor (s94(7)(e)). The audit committee should, however, consider whether the provision of the non-assurance service by the auditor <b>should be approved</b> , given the <b>independence concerns</b> created in terms of the SAICA Code of Professional Conduct (CoPC).	1
<b>SAICA Code of professional conduct</b>		
5	The auditors are professional accountants in public practice; therefore parts 1, 3 & 4 of the SAICA/IRBA CoPC applies.	1
6.	In terms of the SAICA CoPC, PriceRight is a <b>public interest entity as it is a listed entity</b> .	1
7	Preparing journal entries for a client while expressing an opinion on the financial statements that the auditor assisted in preparing creates a <b>self-review threat to independence</b> .	1 ½ ½
8	<b>Option 1 – specific prohibition from s601</b>	
8.1	Preparing journal entries <b>constitutes an accounting and bookkeeping service</b> and falls within the scope of s601 of part 4 of the CoPC.	1
8.2	A firm or a network <b>shall not provide accounting and bookkeeping services to an audit client that is a public interest entity</b> (s601.6).	1
9	<b>Option 2 – general prohibition for audit clients that are public interest entities</b>	

9.1	Where the provision of a non-assurance service to an audit client that is a public interest entity creates a self-review threat to independence, that <b>threat cannot be eliminated, and safeguards cannot be applied</b> to reduce the threat to an acceptable level (s600.15 A2).	1
10	<b>Conclusion</b>	
10.1	The preparation of the journal entries related to the sale of shares in Pharmcon will <b>not be permitted</b> either in terms of the Companies Act or the SAICA CoPC. <b>NOTE:</b> <i>The mark is awarded for concluding, regardless of whether the conclusion reached is correct (but it must agree with the discussion).</i>	1C
	<b>Available</b>	<b>14</b>
	<b>Maximum</b>	<b>8</b>
	<i>Communication skills – logical argument</i>	<b>1</b>
	<b>Total for part (c)</b>	<b>9</b>

	<p><b>Part (d) Describe, with reference to the information contained in section 7, the tests of detail the auditor should perform to obtain sufficient and appropriate audit evidence –</b></p> <p>(i) <b>about the fair value loss recognised in the separate financial statements of FoodGood; and</b></p> <p><b>Ignore any tests of detail related to the following:</b></p> <ul style="list-style-type: none"> <li>• <b>Taxation;</b></li> <li>• <b>Assessing the competence of the accounting staff;</b></li> <li>• <b>Transferring any unadjusted audit differences to the schedule of unadjusted audit differences; and</b></li> <li>• <b>Obtaining a schedule and tracing it to the trial balance and general ledger.</b></li> </ul>	<b>Marks</b>
1.	Obtain a signed <b>management representation letter</b> addressing all relevant assertions over the fair value loss.	1
2.	Obtain the calculation of the fair value loss on the investment in Phoenix and recalculate for <b>mathematical accuracy</b> to ensure that it is accurate.	1
3.	Through inspection, agree the <b>previous year's fair value</b> with the audited financial statements / work papers to ensure that the values used in the calculations are accurate.	1
4	<b>Regarding the work of management's expert</b>	
4.1	Inspect the <b>agreement</b> between management and Jessica to ensure that a valid agreement exists by assessing the contract's validity and/or inspecting signatures.	1
	Evaluate the <b>competence, objectivity and appropriateness of the work performed by the expert</b> by performing the procedures below:	
4.2	Inspect <b>proof of membership</b> to professional bodies, CV and qualifications to assess her relevant experience and competence, etc.	1
4.3	Through enquiry with the expert, ascertain any potential <b>conflict of interest</b> that could result in concerns around the <b>objectivity</b> of the expert.	1
5	Inspect the minutes of the board meeting where the fair value loss and the valuation performed by the expert have been approved.	1
6	<b>Accounting estimates</b>	
6.1	Through inspection of calculation/discussion assess the appropriateness of the <b>assumptions and estimates</b> used concerning market data and the results of audit work performed on FoodGood.	1

6.2	Compare the <b>assumptions</b> (rate of return or risk-free rate) used in the company, to those rates used by similar clients/available in the market.	1
6.3	Assess the reasonability of the valuation performed against the requirements for determining fair value per <b>IFRS 13</b> .	1
6.4	The auditor should determine its <b>own point estimate/its own range of estimates</b> (for example, performing retrospective reviews of past fair value adjustments, scenario analysis of various fair values, and associated probabilities) and compare it to Jessica's calculations.	1
6.5	The auditor should perform the ' <b>stand back</b> ' test and evaluate whether the audit evidence obtained supports the assessment and calculations performed by Jessica.	1
6.6	Obtain audit evidence from events <b>occurring up to the date of the auditor's report</b> to assess whether it provides additional information about the fairness of the estimates made at year-end.	1
7	Discuss with management the need to <b>appoint an auditor's expert</b> to perform an independent valuation.	1
<b>Available</b>		<b>14</b>
<b>Maximum</b>		<b>6</b>
<b>Total for Part (d)(i)</b>		<b>6</b>

**Journals that will be written from the analysis (for completeness)**

Description	Dr. R	Cr. R
<b>Journal 1</b>		
Investment in associate (SoFP)	8 000 000	
Retained earnings (SoCE)		2 000 000
Retained earnings (SoCE)		6 000 000
<i>Recognition of share since acquisition reserves and gain from bargain purchase</i>		
<b>Journal 2</b>		
Investment in associate (SoFP)	2 260 000	
Share in other comprehensive income of associate (OCI)	140 000	
Profit share in associate (SoCE)		2 400 000
<i>Recognition of share in current year profit and other reserves movements</i>		
<b>Journal 3</b>		
Other income (P/L)	40 000	
Investment in associate (SoFP)		40 000
<i>Elimination of dividend received</i>		

<p><b>Part (d) Describe, with reference to the information contained in section 7, the tests of detail the auditor should perform to obtain sufficient and appropriate audit evidence –</b></p> <p><b>(ii) in auditing the investment in the associate included in the consolidated financial statements of PriceRight.</b></p> <p><b>Ignore any tests of detail related to the following:</b></p> <ul style="list-style-type: none"> <li>• <b>Taxation;</b></li> <li>• <b>Assessing the competence of the accounting staff;</b></li> <li>• <b>Transferring any unadjusted audit differences to the schedule of unadjusted audit differences; and</b></li> <li>• <b>Obtaining a schedule and tracing it to the trial balance and general ledger.</b></li> </ul>	<p><b>Mark s</b></p>	
<p><b>General</b></p>		
<p>1.1</p>	<p>Obtain a signed <b>management representation letter</b> addressing all relevant assertions over the equity accounted profits of FoodGood.</p>	<p>1</p>
<p>1.2</p>	<p>Recalculate the analysis of owner's interest to verify the <b>mathematical accuracy</b> of all the amounts listed.</p>	<p>1</p>
<p>1.3</p>	<p>Agree the amounts listed in the analysis with the <b>journals</b> processed to account for the investment in associate in the consolidated financial statement; and</p>	<p>1</p>
<p>1.4</p>	<p>Assess the logic of the journal entries processed, by inspecting that the <b>journal entries were correctly debited and credited</b> (i.e., the dividend received was reversed).</p>	<p>1</p>
<p>1.5</p>	<p>Agree the journal entries processed since the acquisition to equity account for FoodGood, excluding movements in the current year, to the journal entries processed in the prior years.</p>	<p>1</p>
<p>1.6</p>	<p>Inspect the consolidated financial statements of the PriceRight group for the <b>presentation</b> (and disclosure) of a <b>separate line item</b> for –</p> <ul style="list-style-type: none"> <li>• a share of profit in associate in the consolidated statement of profit or loss and the share of other comprehensive income of associate; and</li> <li>• investment in associate presented under non-current assets in the statement of financial position.</li> </ul>	<p>1  1</p>
<p><b>2 The percentage share used in the calculation</b></p>		
<p>2.1</p>	<p>Agree the <b>40% to the original purchase contract</b> to verify the percentage used in the calculation.</p>	<p>1</p>
<p>2.2</p>	<p>Inspect minutes of the management/board meetings for any indication that PriceRight has sold/purchased shares in FoodGood to ensure that the <b>40% did not change in the current year.</b></p>	<p>1</p>
<p>2.3</p>	<p>Inspect the share certificates held by PriceRight and divide by the number of shares in issue by FoodGood (you have access to all information of the group).</p>	<p>1</p>
<p>2.4</p>	<p>Recalculate the investment in FoodGood as 40% of the net equity as reflected in the separate financial statements of FoodGood and as adjusted for the bargain purchase.</p>	<p>1</p>
<p><b>3 Profit for the year and mark-to-market reserve</b></p>		
<p>3.1</p>	<p>Agree the amount of the <b>profit</b> to the signed separate annual financial statements of FoodGood to verify that this amount is correct.</p>	<p>1</p>
<p>3.2</p>	<p>Agree the amount of the movement in the <b>mark-to-market reserve</b> to the signed separate financial statements of FoodGood to verify that this amount is correct.</p>	<p>1</p>

<b>4</b>	<b>Dividends paid / received</b>	
4.1	Inspect the FoodGood workpaper/statement of changes in equity for the <b>value of the dividend paid by FoodGood</b> to ensure that a dividend of R100 000 was paid.	1
4.2	Agree the dividend paid to the <b>amount recognised by PriceRight</b> (40% thereof).	1
4.3	Inspect the workpaper for FoodGood for evidence that a <b>resolution for the dividend was passed and there was a cash outflow</b> . <i>Note: Given the nature of the dividend, audit work would presumably have been performed on the dividend in the separate financial statements of FoodGood.</i>	1
4.4	Inspect the <b>bank statements</b> of FoodGood that dividends to the value of R100 000 was paid (alternatively, inspect the bank statements of PriceRight for the receipt of R40 000 from FoodGood as a dividend payment).	1
	<b>Available</b>	<b>17</b>
	<b>Maximum</b>	<b>8</b>
	<b>Total for Part (d)(ii)</b>	<b>8</b>
	<i>Communication skills – clarity of expression</i>	<i>1</i>
	<b>TOTAL FOR PART (d)</b>	<b>15</b>

<b>Part (e) Describe the agreed-upon procedures you would advise management to request the auditors to perform to identify any fictitious customers on the list of non-performing customer accounts.</b>		<b>Marks</b>
<ul style="list-style-type: none"> <li>• <b>Do not deal with the classification of a customer as a non-performing account.</b></li> </ul>		
1	Obtain and inspect the list of underperforming customer accounts for any abnormalities (using CAATS), such as – <ul style="list-style-type: none"> <li>• <b>duplicates</b> of customers names, ID numbers, cell phone numbers, home addresses, etc.</li> <li>• <b>blank fields</b>, such as names and surnames, ID numbers, cell phone numbers, home address and monthly income.</li> </ul>	1 1
2	Agree on a <b>sample of customers</b> from the list of underperforming customer accounts, and for each customer selected, <b>obtain the related application form</b> and inspect that:	1
2.1	• <b>all required details have been provided</b> (missing details may indicate an application for a fictitious person);	1
2.2	• the <b>details on the application form match the supporting documentation</b> provided; and	1
2.3	• the <b>supporting documentation provided appears authentic and relates to the customer</b> .	1
2.4	Perform an <b>online verification check of the validity of the ID number</b> .	1
2.5	Inspect the application form for the <b>customer's signature</b> as evidence of agreeing to the terms and conditions and that it is not a fictitious customer.	1
2.6	Inspect the application form for <b>evidence of approval by the financial services division</b> .	1
3	<b>For each customer selected</b> , perform the following procedures:	
3.1	Request the <b>outstanding invoices</b> , making up the balance owing, and inspect the invoices to ascertain that the customer made purchases.	1

4	Using the cell phone number provided on the application form, <b>confirm, via positive circularisation, the customer's name and that the customers owes PriceRight money.</b>	1
5	Inspect <b>bank statements</b> for the payment of any amounts the customer owes (subsequent receipts testing).	1
<b>Available</b>		<b>12</b>
<b>Maximum</b>		<b>8</b>
<i>Communication skills – clarity of expression</i>		1
<b>Total for part (e)</b>		<b>9</b>

Part (f) Discuss the following aspects that PriceRight should have considered before changing from diesel generators to solar systems: (i) <b>Governance and business ethics; and</b>		Marks
<b>Governance/ethical considerations</b>		
4.1	King IV principle 1 provides that the <b>governing body should lead effectively and ethically</b> . The characteristics state that they should act <b>responsibly</b> by considering the effect of diesel fumes on the health of clients and workers, the consequences of noise pollution, and the long-term sustainability and ethical extraction of diesel.	1
4.2	The company might not be seen as a <b>good corporate citizen</b> in accordance with King IV principle 3 if it chooses to continue using diesel generators that are not <b>environmentally friendly</b> .	1
4.3	There is a <b>potential breach of fiduciary duties</b> by the directors (sec 76) of the Companies Act, considering how the solar system installer was recommended. <ul style="list-style-type: none"> <li>• <b>Due care or diligence</b> should be taken given the large amounts involved and the potential financial impact on the business.</li> <li>• The sustainability director has used her position to gain an advantage/did not act in the company's best interest by advising the company to use a friend <b>who is not accredited rather than considering</b> what is in the best interest of PriceRight.</li> </ul> <p><i>NOTE: Max 2 for breach of fiduciary duty.</i></p>	1  1
4.4	Knowingly breaking the law (fiduciary duties) and acting unethically demonstrates a <b>lack of integrity</b> by the directors involved in the decision to use Botes Solutions.	1
King IV Principle 16 provides <b>that a stakeholder-inclusive approach should be adopted</b>		
4.5	There could be <b>potential losses for the shareholders</b> due to not properly vetting the supplier to be used to install the systems (stakeholder inclusive).	1
4.6	The decision could be considered <b>not inclusive</b> for all stakeholders as it defeats the <b>spirit of fair business dealings</b> , and other suppliers were not assessed on their merits.	1
4.7	Was a <b>proper supply chain or procurement process</b> followed in appointing the installer of the solar systems, as it does not seem qualified based on the accredited list? This could lead to <b>reputational damage</b> and financial losses for the company.	1
4.8	<b>Poor application of the 'good for self, good for others' principle</b> . The decision to use Botes Solutions is in the best interest of the sustainability director only and adversely affects the company, shareholders and other suppliers.	1

4.9	<b>Nepotism:</b> Botes Solutions, which has a long-standing relationship with the sustainability director, may be seen to be favoured because of its relationship and, as a result, benefiting unduly from it.	1
4.10	Being associated with Botes Solutions could <b>harm PriceRight's reputation</b> if Bakkie is incompetent.	1
	<i>Explanation:</i> <i>The director's involvement <b>does not trigger a personal financial interest</b> within the scope of s75 of the Companies Act. Not within the scope (1) as a <b>friend is not a related person</b> (1) as defined in s2 of the Companies Act.</i>	
	<b>Available</b>	<b>11</b>
	<b>Maximum</b>	<b>5</b>
	<b>Total for part (f)(i)</b>	<b>5</b>

<b>Part (f) Discuss the following aspects that PriceRight should have considered before changing from diesel generators to solar systems:</b>		<b>Marks</b>
<b>(ii) Strategic and other qualitative factors.</b>		
<b>STRATEGIC CONSIDERATIONS</b>		
<b>1</b>	<b>Diesel generators</b>	
	<i>Positive considerations</i>	
1.1	Generators are an instant backup power supply which can be established for the retail stores without the time-consuming installations as the solar panels are imported, could lead to delays in installation	1
1.2	Generators can easily be moved to/shared with other retail outlets.	1
1.3	Generators have cheaper upfront costs and set-up costs.	1
	<i>Negative considerations</i>	
1.4	Risk associated with the constant diesel <b>running costs</b> of operating generators and the volatile nature of these costs in the long run.	1
1.5	Generators are <b>not environmentally friendly</b> (greenhouse gasses are released during operation) and are noisy (noise pollution).	1
1.6	Generators have <b>substantial maintenance requirements</b> . Scheduled maintenance is required, which can be costly and time-consuming for the stores.	1
1.7	<b>Storage conditions</b> – diesel is a flammable substance, and the company needs to ensure that the storage conditions of the substance are considered.	1
1.8	Would diesel stock be kept on hand and how would it be kept; how would the substance be safeguarded?	1
<b>2</b>	<b>Solar system technologies</b>	
	<i>Positive considerations</i>	
2.1	Solar systems are an environmentally friendly alternative, which will result in the company's carbon footprint being reduced. Reducing the company's carbon footprint could have other positive benefits e.g. company's reputation, cheaper financing, positive information to include in integrated reports/sustainability reports.	1 1
2.2	Cost savings on the current electricity bill as a result of the solar system implementation. Other potential cost savings from lower running and maintenance costs	1
	<i>Negative considerations</i>	
2.3	<b>Exchange rate exposure</b> as the solar systems are generally imported from international suppliers. The cost of the solar systems/project could change because of exchange rate fluctuations.	1

2.4	<b>Weather dependent</b> and requires areas with <b>good sun exposure</b> to generate the required levels of power. The company would need to <b>plan around the seasons</b> , e.g. less solar energy is <b>available in winter</b> and diesel generators may still need to be used as back up.	1 1
2.5	Solar systems <b>require</b> vast <b>spaces</b> of land/area to install/set up the solar panels. The company needs to consider how much space it currently has to set up the system.	1
2.6	<b>Batteries</b> to store the harvested power for use during loadshedding are <b>expensive</b> and have a shorter useful life than the panels. Thus <b>replacement</b> costs need to be understood and factored into the plan.	1
2.7	The impact associated with the <b>non-recyclability</b> of solar batteries remains a concern.	1
2.8	It will be difficult to <b>transfer the solar systems to another premise</b> if the company decides to move operations – 20 years is a very long time. The dismantling and refitting of solar systems are a highly complex process.	1
2.9	Consider the <b>reliability of the contractors</b> that have been awarded the installation of the solar system in view of the fact that it is not on the accredited list.	1
<b>3.</b>	<b>Other strategic considerations</b>	
3.1	Funding – the company <b>does not seem to have the total required initial outlay</b> . The company requires R250 000 000 and only R202 945 563 (202 000 000 + 945 563) can be raised from the strategies specified for the solar systems project (phase 1).	1
3.2	<b>Other funding alternatives</b> must be considered to inform how the solar systems will be paid for (e.g., potentially selling more Pharmcon shares).	1
3.3	An <b>NPV calculation</b> should be considered as this is a long-term investment.	1
3.4	The option to <b>rent the solar system</b> should also be considered/evaluated, and the relevant NPV should be calculated to conclude whether the company should consider renting or buying the solar system in the long run.	1
3.5	<b>Working capital requirements</b> need to be factored and considered when investigating the funding available for the solar project. Some of the cash on hand could be operational in nature and not available for use on the project.	1
3.6	Consider <b>selling the existing generators</b> to raise additional capital for the funding of the solar system project.	1
3.7	Consider how the <b>subsequent phases will be funded</b> , in view of the large capital investment that will be required.	1
3.8	<b>Other options</b> that could be available to the company outside of the current alternatives being considered (e.g., gas turbines).	1
3.9	The <b>government's future investment plans</b> towards resolving the loadshedding issues might result in the solar system option not being the most cost-effective solution in the long run.	1
3.10	The company should consider if the solar installation <b>complies with regulations and insurance requirements</b> .	1
3.11	The <b>tax consequences</b> and impact associated with the solar project and funding models need to be considered.	1
3.12	Considerations if the store premises are leased: <ul style="list-style-type: none"> <li>• Will the <b>landlord allow</b> the company to install rooftop solar panels?</li> <li>• The company needs to consider the <b>correlation of the lease period and the useful lives of the solar system components</b>.</li> </ul>	1 1

3.13	Consider using a <b>smaller city</b> : the pilot city chosen is Johannesburg, which will have many stores.	1
3.14	Pilot to be run in a smaller city, reducing the initial capital outlay.	1
3.15	Consider <b>scenario analysis</b> for planning and identifying operational risks that will impact the potential outcomes associated with the project. e.g theft of these panels and safeguarding them should also be considered.	1
3.16	Consider <b>obtaining quotes</b> from various suppliers and compare the quotes per solar system component, including the specs and price of each.	1
3.17	The solar systems are imported. Consider whether <b>local suppliers can provide the necessary maintenance service</b> and if spare parts will be readily available in South Africa, or will the foreign suppliers be able to provide maintenance and spare parts at a fair price?	1
3.18	There is a potential to <b>earn money from selling excess power</b> back to the grid.	1
<b>Available</b>		<b>38</b>
<b>Maximum</b>		<b>20</b>
<i>Communication skills – logical argument</i>		1
<b>Total for part (f)(ii)</b>		<b>20</b>
<b>Total for part (f)</b>		<b>26</b>
<b>TOTAL FOR PART II</b>		<b>59</b>