

| Part (d) | Discuss and conclude on the ethical considerations surrounding the proposal by Valuevest executives to use ChatGPT to replace the team of financial analysts and investment specialists. | Marks |
|----------|---|------------------------------|
| 1. | <p>Consideration should be given whether the use of ChatGPT is legal:</p> <ul style="list-style-type: none"> • this should not be a problem as the information that is used by the AI is publicly available (OpenAI) and not considered confidential or protected by law; OR • by uploading sensitive information (bank statements, financial statements, management accounts) without the permission of the client, this information is on public domain and accessible which will then be illegal; OR • the legality of retrenching a large component of the team of financial analysts and investment specialists should be in line with the Labour Relations act etc. | 1 |
| 2. | <p>Consideration should be given whether the use of ChatGPT is good for the company (the self):</p> <ul style="list-style-type: none"> • The use of ChatGPT will be beneficial for the company as it will save the cost of the financial analysts and accordingly will maximise profits, which is good for ValueVest. • The purpose of a business is to make money and accordingly its success and that of its management is measured on the profits it makes. Therefore, increasing the profits will be good for the management and other stakeholders through the payment of taxation and increased salaries and dividends as well (This only focuses on the financial component). • The use of ChatCPT may have negative consequences for ValueVest as the valuations provided by ChatGPT may be inaccurate (only 90% accurate) and based on old data resulting in inappropriate decisions and customer dissatisfaction. • The retrenchment of such a large component of the team of financial analysts and investment specialists might negatively impact ValueVest's reputation if not handled appropriately and/or negatively impact the staff morale of the remaining analysts/investment team leading to decreased productivity. | 1 1 1 1 |
| 4. | <p>Consideration should be given whether the use of ChatGPT is good for the financial analysts who will get retrenched (the other):</p> <ul style="list-style-type: none"> • The analysts will be retrenched and will lose their income and accordingly the use of ChatGPT will result in the loss of their livelihood which will be bad for them and the South African economy. | 1 |
| 3. | <p>In terms of principle 1 of King IV: The board should act ethically (beyond mere legal compliance) and set the tone for an ethical culture. However, retrenching such a large component of the team of financial analysts and investment specialists in favour of AI is unlikely to be viewed as ethical by ValueVest employees.</p> | 1 |
| 5. | <p>In terms of other relevant ethical theories (uBuntu/deontological/ utilitarian/egalitarianism):</p> <ul style="list-style-type: none"> • By retrenching such a large component of the team of financial analysts and investment specialists in favour of IA will not be good for society nor be seen as a universally accepted practice for all those employees losing their income and livelihood. | 1 |

| | | |
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| 6. | Conclusion: An organisation should be a responsible corporate citizen, and while its goal will be the maximisation of profits, it should also look after its staff and their wellbeing and given the uncertainty and shortcomings of ChatGPT it will be irresponsible of management to retrench the analysts at will. | 1 |
| Available | | 9 |
| Maximum | | 4 |
| Total for part (d) | | 4 |

| Part (e) | Describe the controls that Valuevest’s management should have implemented with regard to – (i) the investment process as described in section 1, excluding the payment process and human resources department controls, in addition to those already described in the scenario; • Limit your answer to four additional controls; and | Marks |
|----------|--|--------|
| 1. | <p>Documentation of the investment policy and procedures The policies and procedures that outline the investment process, including roles and responsibilities, decision-making criteria, risk management guidelines, and compliance requirements should be documented and easily accessible and all parties in the investment process must be familiar with it.</p> | 1 1 |
| 2. | <p>Segregation of duties Proper segregation of duties should exist between the different individuals or teams involved in the investment process so that no person has the authority to initiate, approve and settle a transaction. For example, the person responsible for making investment decisions should be separate from the person responsible for executing trades.</p> | 1 1 |
| 3. | <p>Compliance and regulatory oversight Procedures should be in place to ensure investment decisions comply with the relevant laws and regulatory requirements. The company should adhere with relevant laws, regulations, and internal compliance policies. This should be done by a compliance function properly staffed with persons with the necessary legal and regulation knowledge.</p> | 1 1 |
| 4. | <p>Risk management function A risk management framework should exist that identifies, assesses and mitigates investment risks. This includes establishing risk tolerance levels, conducting risk assessments for different investments, implementing risk monitoring systems, and maintaining contingency plans for adverse events.</p> | 1 1 |
| 5. | <p>Regular audit and review Independent audits or reviews (internal or external audit) of the investment process should regularly be undertaken to ensure compliance, to identify control weaknesses and evaluate the effectiveness of risk management measures. External auditors or internal audit teams can assess the adequacy of controls and provide recommendations for improvement (to management who needs to assess and respond to these recommendations).</p> | 1 1 |
| 6. | <p>Ongoing education and training There should be continuous education and training programmes for investment professionals and stakeholders involved in the investment process. (This will help enhance their knowledge of investment principles, risk management techniques, regulatory requirements and ethical considerations).</p> | 1 1 |
| 7. | <p>IT security and continuity (system controls) There should be a sound IT system with adequate security and business continuity controls to support the investment process and maintain data integrity. Security measures should be in place to protect sensitive information and prevent unauthorised access. Software and systems should be updated regularly to address potential vulnerabilities and ensure proper functionality.</p> | 1 1 |
| 8. | <p>General environment controls</p> | |

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| | There should be appropriate use of documentation, stationery (such as pre-numbered documentation), signatures to prove review and appraisals and appropriate safeguard of confidential information. | 1 1 |
| | Available | 16 |
| | Maximum | 8 |
| | Total for part (e)(i) | 8 |

| Part (e) Describe the controls that Valuevest’s management should have implemented with regard to – (ii) protecting the company against cyber attacks. | | Marks |
|---|--|----------------------|
| 1. | Proper firewalls and anti-spam software should exist that restrict the inflow and outflow of the information from the IT system. | 1 |
| 2. | Antivirus and malware software should be used to block virus and phishing malware (also latest antivirus for firewalls). | 1 |
| 3. | Data on the system should be encrypted (or data privacy protection) to ensure the privacy/confidentiality thereof in case of cyber attack. | 1 |
| 4. | Access to terminals and devices should be restricted to specific functionalities and access rights on the system. | 1 |
| 5. | Authorised users should be identified by the system through unique user identification numbers (access rights on the system - least privilege basis). | 1 |
| 6. | <p>Access to the systems (including database and network) should be controlled through passwords allowing users access to the system.</p> <ul style="list-style-type: none"> • These passwords should be unique, not too short, not be easily guessed, contain numeric and alphanumeric numbers, etc (password controls). • A two-factor authorisation should be in place. • The system must force the user to change his password from time to time and not be able to use the same password multiple times. • The system should automatically log out after a period of non-activity (say 10 minutes). • The system should block access after three unsuccessful login attempts. • There should be a formal password policy and procedures to adhere to in terms of passwords. • Logs/reports of all unauthorised access or unsuccessful attempts must be created and monitored so immediate action can be taken when cyber attack is detected. | 1 1 1 Max 2 |
| 7. | Users should be educated through training in the risks of cyber security (emails from unknown sources/spelling errors/random links to access/etc) and awareness programmes should regularly be run for all staff. | 1 |
| 8. | Regular penetration testing (ethical hacking), backups and disaster recovery plans should be enforced. | 1 |
| | Available | 10 |
| | Maximum | 6 |
| | Total for part (e)(ii) | 6 |
| | <i>Communication skills – appropriate style</i> | <i>1</i> |
| | Total for part (e) | 15 |

| Part (f) Discuss the governance concerns surrounding the bonus and share option schemes in note 2 of section 3. | | Marks |
|--|---|-----------------|
| <ul style="list-style-type: none"> • Include appropriate and applicable considerations in terms of the SAICA Code of Professional Conduct. • Do not include aspects to be considered in evaluating or addressing the threats identified. | | |
| Companies Act concerns | | |
| 1. | The decision to approve the share option scheme for the executive directors were taken at a board meeting where all the executive directors were present. However, directors are not allowed to take such a decision (section 41) and a special resolution from the shareholders is needed to approve this decision. | 1 |
| 2. | All the directors can further incur personal liability (section 77) for any losses that arise from the above because they were part of the decision/meeting. | 1 |
| 3. | The directors also did not comply with their duty of exercising with care, skill and diligence as required in terms of section 76 of the Companies Act because they are not aware of the necessary requirements for this decision. | 1 |
| King IV report concerns | | |
| 4. | P8 recommends that the board should ensure its arrangements for delegations are in place to ensure independent judgement. As the board of directors, which include the executive directors, are deciding on bonuses, it is clear that the board did not delegate the decision of performance bonuses to an independent remuneration committee or adhoc committee (thus non-existent or not effective). | 1 |
| 5. | P14 recommends that the board should ensure that the company remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term: <ul style="list-style-type: none"> • 20% of after-tax profits appears to be excessive and only focused on the short-term outcomes (profits) without non-financial measures being in place; • One could consider the fact that the bonus is not increasing (or decreasing) to be against the spirit of a bonus which should be performance linked. As a result, it is not balancing the needs of the various stakeholders (P16) – as the investment team will be getting the bonus regardless and it is not in the best interest of the investment team if it outperforms with no increase. | 1 1 1 |
| 6. | P1 recommends that the board should act in good faith/best interest of the company , however the share options are approved for themselves and appear excessive considering that ACL is recovering post pandemic which is not acting with integrity or in good faith and not in the best interest of ACL. | 1 |
| 7. | P13 recommends that the board should govern compliance with applicable laws but currently the board of directors are part of the non-compliance with the Companies Act and are not leading ethically. | 1 |
| SAICA's Code of Professional Conduct (CoPC) concerns | | |
| 8. | The CFO is a Professional accountant (CA(SA)) in business and should accordingly comply with part 1 and 2 of the SAICA CoPC. | 1 |
| 9. | There might be a breach in the CoPC due to the CFO who approved a decision which should have been referred to the shareholders. <ul style="list-style-type: none"> • Consequently, there is a self-interest threat to his professional competence and due care, as he should have known the requirements | 1 0.5 0.5 |

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| | <p>of the Companies Act and if he did not know, he should have obtained the knowledge (either through self-directed learning or CPD or consulting with a specialist).</p> <ul style="list-style-type: none"> • There is also a conflict of interest leading to a self-interest threat to his objectivity because he may have been biased and influenced by making the decision/approval on his own salary structures. • There is a self-interest threat to his professional behaviour since there was a breach to laws and regulation by not adhering to the Companies Act (specific requirements not followed) and this will discredit the profession. • Lastly, there is also a self-interest threat to his integrity since he may be dishonest/not straightforward if he was aware of the requirements but still did not adhere to them and follow the correct procedures when deciding on his salary structures. | <p>1</p> <p>0.5</p> <p>0.5</p> <p>1</p> <p>0.5</p> <p>0.5</p> <p>1</p> <p>0.5</p> <p>0.5</p> <p>1</p> |
| | Available | 19 |
| | Maximum | 8 |
| | <i>Communication skills –layout and structure)</i> | 1 |
| | Total for part (f) | 9 |

| Part (g) Describe the procedures that Valuevest's consultants should perform as part of their due diligence to identify possible unrecorded liabilities and contingent liabilities not accounted for in the financial statements of target companies. | | Marks |
|---|---|--|
| 1. | Discussions with management / internal legal house to identify possible litigation and claims, including legal costs incurred. | 1 |
| 2. | Obtaining a signed management representation letter from management regarding completeness of all unrecorded liabilities, contingencies and claims. | 1 |
| 3. | Inspecting minutes of directors , management or shareholders meetings for possible contingencies and claims. | 1 |
| 4. | Performing media searches for any indication of litigations against the target Company. | 1 |
| 5. | With permission of management, enquire with legal advisors and attorneys regarding possible pending legal matters that could give rise to contingencies and claims or any correspondence between Valuevest and the legal advisors. | 1 |
| 6. | Inspecting documentation / correspondence with external parties such as: <ul style="list-style-type: none"> • Contracts, • loan agreements, • leases, • insurance correspondence, • SARS documentation, such as statements of accounts, • Invoices from lawyers for possible sureties, contingencies and claims. | 1 0.5 0.5 0.5 0.5 0.5 Max 1 |
| 7. | Obtaining confirmations from banks and other financial institutions regarding possible sureties, contingencies and claims. | 1 |
| 8. | Reviewing the legal costs or interest expense in the general ledger – and link the cost to the relevant liability or provision. | 1 |
| 9. | Inspecting subsequent bank statements for payments made subsequent to the financial reporting date and/or the previous year's 'events after reporting date note' to ensure the appropriate provision / liability was recorded in the correct period. | 1 |
| 10 | Inspect supplier reconciliations/bank reconciliations and assess if there are reconciling items linked to unrecorded liabilities as per supplier statements or bank statements. | 1 |
| 11. | Perform analytical review of prior year liabilities compared to current year liabilities by comparing supplier and loan schedules. | 1 |
| Available | | 12 |
| Maximum | | 6 |
| Total for part (g) | | 6 |

| Part (h) Describe, with reference to the external audit of ACL for FY2023 – (i) the risk of material misstatement related to the right-of-use assets; | | Marks |
|--|---|-------|
| <ul style="list-style-type: none"> Do not address presentation and disclosure in your answer. | | |
| <i>Note: risks are stated by assertion for clarity purposes although not asked for per assertion.</i> | | |
| Existence | | |
| 1. | The risk that assets may be recorded as a right-of-use asset that does not meet the accounting requirements for capitalisation (i.e., contract does not contain a lease) or the incorrect assessment of a contract by the group due to inexperienced staff members and complexity. | 1 |
| 2. | The risk that certain equipment, machinery and vehicles may not exist or may have been stolen given the widespread location throughout South Africa. | 1 |
| 3. | The risk that a lease that is terminated is still recognised as a right-of-use asset as some of the team members are inexperienced. | 1 |
| Rights | | |
| 4. | The risk exists that right-of-use assets are recognised that ACL does not have the right of use, as some of the team members are inexperienced. | 1 |
| 5. | The risk that some lease contracts are capitalised despite not meeting the accounting criteria for recognition as a right-of-use asset, some of the team members are inexperienced. | 1 |
| Completeness | | |
| 6. | The risk exists that not all assets and costs that meet the requirement for capitalisation as a right-of-use asset are accounted for as such, as some of the team members are inexperienced. | 1 |
| Classification | | |
| 7. | The risk that short-term or low-value leases for less than R100 000 , may be classified incorrectly as a right-of-use asset and vice versa due to inexperienced staff members. | 1 |
| Accuracy, valuation, and allocation | | |
| 9. | The risk of incorrect accounting treatment of capitalisation, derecognition and depreciation of the right-of-use assets, as it involves complex accounting treatment, and calculations. | 1 |
| 10. | The risk that all right-of-use assets are not correctly identified and tested for impairment, as some of the team members are inexperienced | 1 |
| 11. | The risk of incorrect accounting treatment and calculations of the cost of the derecognition of the right-of-use assets, as it involves complex accounting treatment and calculations. | 1 |
| 12. | Initial measurement of the right of use is also complex as it refers to the measurement of the lease liability. Aspects such as the discount rate(s) used to discount the future cash flows may not be correct or the rate implicit in the different leases may not be used to discount these (other inputs such as period, payments or residual value might also not be correct in the calculation). | 1 |
| 13. | The complexity of the impairment calculation, given the nature of the right-of-use assets, being land, buildings, equipment and vehicles, could lead to accounting errors. <ul style="list-style-type: none"> There is a risk that the recoverable amount calculation (fair value and value in use) is incorrect because of the subjectivity and complexity of various inputs into the calculation. | 1 |

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| 14. | The complexity in calculating depreciation on aspects such as the use of lease term or useful life for the different categories of land, buildings, equipment and vehicles could lead to accounting errors and misstatement. | 1 |
| 15. | Further the determination of the depreciation method and useful lives of the different categories of right-of-use assets are complex and could lead to accounting errors and misstatements. | 1 |
| Available | | 15 |
| Maximum | | 8 |
| Total for part (h)(i) | | 8 |

| Part (h) Describe, with reference to the external audit of ACL for FY2023 – (ii) the substantive procedures to verify the right-of-use assets that JGL should perform. | | Marks |
|---|--|-------------|
| <ul style="list-style-type: none"> Do not address presentation and disclosure in your answer. | | |
| <i>Note: the procedures below should be followed for every category of right-of-use asset, namely land and buildings, equipment and machinery and vehicles.</i> | | |
| General procedures | | |
| 1. | Agree the right-of-use assets' balances in the trial balance to those in the general ledger accounts and fixed assets register. | 1 |
| 2. | Obtain a signed management representation letter in which management specifically deals with all the assertions of right-of-use assets and the accounting treatment thereof. | 1 |
| 3. | Using CAATs (or inspection) to run data analytics, inspect the general ledger for exceptions such as negative depreciation and carrying amounts or duplicates/missing values. | 1 |
| 4. | Perform stratification on assets in the fixed assets register per location to identify high value leases (assist with sampling). | 1 |
| 5. | Cast and cross cast the fixed asset register and agree the amounts to the general ledger and financial statement. | 1 |
| 6. | Agree the carrying values at the beginning of the year for each of the right-of-use asset categories to the amounts in the prior year working papers. | 1 |
| Existence and ownership | | |
| 7. | Select right-of-use assets in the fixed asset register and physically inspect a sample of the assets for existence. | 1 |
| 8. | Agree the assets selected for physical inspection with the <ul style="list-style-type: none"> lease contracts, registration documentation, insurance documentation, etc., and confirm ACL as the registered lessee of the assets (name). | 1 |
| Completeness / classification | | |
| 9. | Select assets physically when undertaking the above asset verification, and follow the assets through to the fixed asset register and to the lease contract. | 1 |
| 10. | Select lease contracts and follow the assets through to the fixed asset register. | 1 |
| 11. | Inspect for lease payments in the general ledger accounts / bank statements and follow up with contracts and assess that the assets are recognised in the fixed asset register. | 1 |
| Accuracy, valuation and allocation and classification | | |
| 12. | Using CAATs, run data analytics / recalculate the castings and calculations of depreciation; and | 1 |
| | recalculate the castings and calculations of carrying values of the different right-of-use assets in the fixed asset register. | 1 |
| 13. | Select new lease contracts entered into the year and test the following: <ul style="list-style-type: none"> Whether the lease contract meets the accounting treatment for capitalisation as a right-of-use asset and confirm Valuevest has both: <ul style="list-style-type: none"> the right to obtain substantially all of the economic benefits from the use of the assets; and the right to directly use the asset. Agree the interest rate applicable to the right-of-use assets by referring to the lease contract. | 1 1 1 |

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| | <ul style="list-style-type: none"> Asses the appropriateness of the costs included in the calculation for the initial costs to capitalise the asset, by agreeing them to the lease contract. Recalculating the capitalisation amount using the present value of the lease payments using the rate confirmed in the lease contract and comparing it to the amount recorded in the fixed asset register. | 1 |
| | | 1 |
| 14. | Select the derecognition lease of the land and buildings and test that the accounting treatment and calculations for derecognition were met and assets appropriately removed from the records. | 1 |
| 15. | Select the lease assets (land and buildings) on which the impairment charge was recognised and consider the correctness of the accounting treatment thereof as well as the calculation of the impairment amount by: | |
| | Obtaining the VIU calculation and inspect the inputs used to ensure the inputs are considered with IAS 36 and is reasonable. | 1 |
| | Obtain and inspect that the fair value approximates selling prices of similar buildings. | 1 |
| | Reperform the VIU calculation and compare to management to ensure it is reasonable. | 1 |
| 16. | Consider, based on the income generated by the different categories of right-of-use assets as well as discussion with management, whether any further indicators exist that will require impairment of the assets. | 1 |
| | Available | 23 |
| | Maximum | 10 |
| | Total for part (h)(ii) | 10 |
| | <i>Communication skills – appropriate style</i> | <i>1</i> |
| | Total for part (h) | 19 |
| | TOTAL FOR PART II | 53 |