

Part (a) Describe four business risks relating to the granting of credit to RainbowT customers and one relevant control to mitigate each risk.				
• Provide your answer in a tabular format.				
No	Risk	Marks	Control	Marks
1.	<b>Fictitious debtors</b> are loaded onto the StarLabs Customer database to increase revenue/receivables in order for the cashiers / employees to <b>steal the cash receipts</b> .	1	1.1. A credit application form needs to be completed for each customer and <b>approved</b> by Tshepo. <b>OR</b> 1.2. The credit application form should include a copy of the <b>customer's ID, 3-month bank statement or payslip</b> (for credit approval) and <b>utility bill</b> (or similar) to ensure that the customer is <b>valid</b> and has appropriate identification.	1 (either of these controls will attract a mark, limited to 1 mark per risk as per the question instruction). Similarly for all other risks.
2.	Credit may be granted to <b>uncreditworthy customers</b> resulting in debtors not being able to repay the debt and, ultimately, balances having to be <b>written off</b> .	1	2.1. <b>Credit limits</b> need to be appropriately determined by Tshepo and applications supported by the relevant bank statements, <b>approval limits and sign-off. OR</b> 2.2. <b>Credit terms</b> will need to be agreed with customers with a legally enforceable <b>contract</b> signed. 2.3. <b>External verification</b> of creditworthiness (transunion).	1
3.	RainbowT might <b>not have a credit policy or have weak controls</b> which may lead to the company granting credit to customers who may <b>not be able to afford</b> and therefore defaulting.	1	3.1. A <b>formal credit policy</b> needs to be approved by Tshepo to ensure that credit applications are all treated consistently and that credit is only awarded to customers that meet the requirements (i.e. creditworthiness checks to be undertaken).	1
4.	4.1 There is a risk of <b>non-compliance</b> with the National Credit Act / FICA: RainbowT might not be registered as a credit provider in terms of the Act or that the company might be granting <b>reckless credit</b> , resulting in RainbowT forfeiting the right to recover the outstanding amount, which will result in financial losses to the company. 4.2 Non compliance with <b>Customer Protection Act and / or POPI</b> as RainbowT has the information of all its debtors and	1	4.1. The credit policy and documentation in place when credit is granted needs to be <b>reviewed by a legal practitioner</b> to ensure that all rules and regulations are being followed. <b>OR</b> 4.2. Relevant staff (e.g. credit controllers) need to attend <b>training to ensure that credit is only awarded</b> to customers who meet the requirements of the credit policy. <b>OR</b> 4.3. A <b>compliance checklist</b> should be in place to ensure that all relevant documentation have	1

	any hacking or loss of information might result in a <b>reputation risk</b> to the entity, as all <b>data breaches</b> need to be reported to the data subjects.		been received and vetted by a legal practitioner.	
5.	The granting of credit may <b>reduce immediate cash flow</b> leading to supply chain issues/ product capacity/ business management/ Which could ultimately manifest into going concern issues.	1	5.1. SpeedForce will need to be set up to send out <b>payment reminders</b> to debtors on a consistent basis. <b>OR</b>	1
		1	5.2. Obtain the relevant <b>trade credit insurance / charge interest</b> on overdue accounts to incentivise better behaviour. <b>OR</b> 5.3. RainbowT needs to calculate and monitor its <b>optimal breakeven point</b> in terms of cash requirements. I.e. Ratio between cash sales and credit sales.	1
6.	<b>COVID</b> increased <b>economic risks</b> due to more debtors being unable to repay – the risk is that previously creditworthy customers also default on debts.	1	6.1. There needs to be a <b>regular review of credit limits</b> set by Tshepo and an adjustment of the limits set in light of the current circumstances.	1
7.	<b>Employee could override</b> the credit limit and award a customer an <b>excessive credit limit</b> .	1	7.1. There should be a <b>review of the credit limit granted per customer</b> . To include an additional layer of review to the credit limit awarded to the customer.	1
	<b>Total</b>	<b>11</b>	<b>Total</b>	<b>11</b>
	<b>Maximum</b>	<b>4</b>	<b>Maximum</b>	<b>4</b>
			<b>Available</b>	<b>22</b>
			<b>Maximum</b>	<b>8</b>
			<b>Total for part (a)</b>	<b>8</b>

Part (b) Describe the automated information processing controls that should be in place to ensure that all data transferred from StarLabs to SpeedForce is accurate and complete.		Marks
<b>No</b>	<b>Automated controls</b>	
<b>1.</b>	<b>Accuracy</b>	
1.1.	Before StarLabs can update SpeedForce, the ability to process transactions should be <b>locked until midnight</b> by the system (automated) to prevent transactions occurring before SpeedForce is updated and therefore being excluded.	1
1.2.	StarLabs should prepare/calculate the following <b>batch control totals</b> before SpeedForce can be updated / or exception report is generated if the processing run did not take place:	1
1.2.1.	<b>Financial total:</b> the total of all the revenue transactions, balances of accounts receivable and the total value of inventory sold.	1
1.2.2.	<b>Hash total:</b> The total of all transaction numbers for sales transactions or inventory numbers in order to endure complete transfer.	1
1.2.3.	<b>Transaction (Document) total / record count:</b> The total number of transactions that will update SpeedForce.	1
1.3.	Once the batch control totals have been calculated by StarLabs, a <b>run-to-run process</b> should automatically be carried out by the system in which the SpeedForce application is <b>updated with the information</b> .	1
1.4.	A <b>run-to-run total</b> should be computed after updating SpeedForce to ensure that <b>all the transaction</b> values balance, and have been accurately transferred to SpeedForce.	1
1.5.	<b>Exception reports</b> should be generated if the <b>run-to-run totals / control totals</b> do not balance, and these should be reviewed and followed up.	1
1.6.	All <b>data packages</b> being transferred between StarLabs and SpeedForce should be <b>controlled to prevent tampering</b> which may affect accuracy or completeness, which may include encryption to prevent ability to change packets.	1
1.7.	All <b>product codes need to be compared to the inventory system</b> so that the scanning terminal (speedpoint) identifies the item, <b>Customer details in the customer database</b> on StarLabs need to be linked to the credit sale transaction so that the transaction is accurately recorded and interfaces with SpeedForce appropriately.	1
1.8.	The processing initiation function <b>&lt;Update SpeedForce&gt; should be appropriately access controlled</b> in order to limit the threat of incorrect activation (wrong packets etc) inaccurate data transfers. (Processing interface specifically)	1
<b>2.</b>	<b>Completeness</b>	
2.1.	There needs to be <b>appropriate automated system updates and maintenance</b> for both SpeedForce and StarLabs to ensure the systems remain compatible during data transfer so that no data is lost.	1
2.2.	There needs to be an <b>automated reconciliation</b> that generates an exception report between the 349 suspense account and the 350 receivables account to ensure that <b>balances have been brought over correctly</b> , which are reviewed and followed up by a supervisor (speaks to both accuracy and completeness).	1

2.3.	<b>Sequential numbering</b> should be put in place on transactions and <b>tested on the transaction listing</b> imported into SpeedForce to ensure there are no missing transactions within the sequence.	1
2.4	The system should generate an <b>exception report that logs the programmed edit tests</b> run on interfaced information to evaluate whether the <b>logic of the data is maintained</b> (e.g. that there are no unusual <b>negative balances, numeric fields include only numbers</b> etc).	1
2.5	There should be a <b>log of interruptions</b> , this should be reviewed by Tshepo to assess for any missing data.	1
2.6	The above controls for completeness may include the <b>use of CAAT's</b> applied to the data.	1
2.7	A <b>run-to-run total</b> should be computed after updating SpeedForce to ensure that all the transaction values balance, and have been <b>accurately transferred</b> to SpeedForce to ensure completeness.	1
2.8	<b>Echo and resending</b> of messages: echo of messages from the recipient system back to the sender system, and if an echo is not received back within a reasonable time period, resending the messages – <b>to ensure all messages/data is received.</b>	1
2.9	<b>Header and trailer labels</b> , indicating the <b>beginning and end of messages</b> transferred between the two systems. If both labels are not received by the recipient system, it indicates that the complete message was not received and error handling procedures can take effect.*	1
2.10	<b>Business continuity controls</b> , such as a <b>UPS</b> back-up battery which switches on automatically in case of loadshedding. If the system is down, the transfer will not happen or be incomplete, affecting the completeness of the transfer. Even though this is not a processing control, it would ensure the complete transfer of data during loadshedding.	1
<b>Available</b>		<b>23</b>
<b>Maximum</b>		<b>7</b>
<b>Total for part (b)</b>		<b>7</b>

<p><b>Part (c) Describe the additional substantive audit procedures that the external auditor of RainbowT should perform relating to the accuracy, occurrence and completeness of the debtors' age analysis as at 30 June 2021.</b></p> <p>The following procedures have been performed on the accuracy, occurrence and completeness of the debtors' age analysis:</p> <ul style="list-style-type: none"> <li>• Obtaining all client schedules supporting the classes of transactions and account balances.</li> <li>• Re-performing the casts and cross-casts on these schedules.</li> <li>• Agreeing the closing balance of these schedules to the amounts in the general ledger, trial balance and annual financial statements.</li> <li>• Agreeing the opening balance of these schedules to the prior-year workpapers and audited financial statements.</li> <li>• Obtaining a signed management representation letter regarding the accuracy and completeness assertions relating to the classes of transactions and account balances being audited.</li> <li>• Considering the effectiveness of internal controls regarding classes of transactions and account balances and its impact on the nature, timing and extent of the substantive procedures.</li> </ul>		<b>Marks</b>
1.	Obtain the debtors' age analysis as at 30 June 2021 and compare the names of the debtors to the following for completeness:	
1.1.	Compare the <b>Masterfile for the current year to the prior year</b> to identify any <b>new debtors</b> and trace through / vouch to the application forms to ensure that valid debtors file details exist (take on forms, contracts etc).	1
2.	Obtain the listing of all invoices making up the balance outstanding for each debtor and perform the following procedures:	
2.1.	Obtain a sample of high risk / high value credit sales invoices and inspect the invoice for a <b>signature of the customer to ensure that the sale occurred.</b>	1
2.2.	Inspect the credit sales invoice for the amount, price, names, account details, and date of payment and <b>recalculate the days outstanding</b> to ensure that the outstanding credit sale has been allocated to the <b>correct time bucket</b> in the debtors' age analysis.	1
3.	Extract all customers reflecting a <b>credit balance</b> (may be done using CAAT's) and request management to <b>reclassify</b> these amounts to a liability.	1
4.	Using CAAT's extract a report from the StarLabs Masterfile with <b>all missing (occurrence) fields</b> (e.g. physical address, customer number, credit limit, etc.). This could indicate potential <b>fictitious customers</b> which may be present on the age analysis.	1
	or <b>duplicate (accuracy) debtors</b> (e.g. physical address, customer number, credit limit, etc.). This could indicate potential fictitious customers which may be present on the age analysis.	1
	Extract a report of all <b>long outstanding debtors/invoices</b> - for example over 90 days - as this may be an indicator of fictitious debtors/invoices which have been added (ie. occurrence).	1

5.	Request copies of bank statements subsequent to year-end and trace a selection of <b>payments received to the debtors' balances at year-end</b> to confirm completeness. Test the <b>aging of the application of receipts</b> by tracing through inspection from the bank statement to the age analysis and where <b>allocated to correct invoice</b> (may have been allocated to the oldest invoice when intended for the newest invoice corrupting the age analysis.)	1 1
6.	Select a sample (random sample, high value items etc.) of debtors to test <b>credit notes</b> for goods returned or returned notes from customers and confirm that <b>the sale has been appropriately reversed</b> from the debtors' age analysis.	1
7.	Select a sample of debtors and inspect <b>dates of payment to determine correct percentage for discount</b> granted (occurrence) <b>Recalculate the discount</b> awarded and trace the allocation to the debtors account balances and payments received to <b>confirm deducted from the debtors balances</b> (accuracy).	1 1
8.	Perform <b>analytical procedures</b> on the balances in order to determine if anticipated relationships hold, investigating any <b>unexpected variations</b> . (Debtors as a % of sales, Debtors days outstanding (or any valid examples with explanation linked to an assertion/s).)	1
9.	Obtain <b>debtors confirmation letters</b> from the outstanding debtors and agree <b>balances to the age analysis</b> to determine that they have occurred. (occurrence).	1
10.	While inspecting invoices or credit notes, confirm that the transaction recorded has <b>correctly accounted for the VAT</b> portion and amount correctly reflected in the age analysis.	1
11.	Inspect the <b>general journals</b> before and after year end for any unusual transactions processed relating to debtors. By inspection of the relevant source documentation verify that any transactions identified were valid and accurate and have been processed on the debtors age analysis where required	1
12.	Obtain a listing of <b>bad debts written off</b> , and trace to the age analysis inspect whether all such balances have been removed from the analysis correctly.	1
<b>Available</b>		<b>16</b>
<b>Maximum</b>		<b>6</b>
<b>Total for part (c)</b>		<b>6</b>

Part (d) In order to assist Tshepo with the working capital analysis – (i) calculate the trends in the working capital cycle of RainbowT for the period FY2019 to FY2021; and						Marks
<ul style="list-style-type: none"> <li>Round all workings and final answers to the nearest whole number.</li> <li>Use year-end (and not average) balances in the calculation of any supporting amounts or ratios.</li> <li>Use 365 days per year when calculating relevant ratios.</li> </ul>						
	2019	2020	2021	% change (19 - 20)	% change (20- 21)	
Calculated % movement						1
Inventory days (2019: 2364/9158*365; 2020: 2502/7651*365)	94	119	98	27%	-18%	1 1C ½C
Inventory	2 364 514	2 502 040	2 495 568	6%	-0.3%	½
Payables days (2019: - 125-94-69; 2020: 702/7651*365; 2021: 810/9290*365)	38	33	32	-13%	-3%	1C 1C ½C
Trade payables (2019: 38/365 x 9158951)	953 535	702 104	810 355	-26%	15%	1C ½C
Gross trade receivable days	69	140	145	103%	4%	1
Total sales	10 775 236	8 501 258	10 557 231	-21%	24%	1 ½C
Cash conversion cycle (gross)	125	226	211	81%	-7%	1C ½C
AR Balance (2021: 145/365*9502) OR 145/365*10 557	1 020 598	2 601 607	3 774 572 / 4 193 968	155%	45%	1 ½C
Credit loss allowance as a % of credit sales	5%	8%	11%			1
Credit loss allowance as a % of trade receivables	26%	22%	25%			1
Cost of sales (2020: 6801006/0.8*(1-0.1))	9 158 951	7 651 132	9 290 363	-16%	21%	1 ½C
Current ratio(CA/CL)	4.8 : 1	8 : 1	8.1 : 1			1
Quick ratio	2.4 : 1	4.4 : 1	5 : 1			1
Receivables/credit sales	0.189	0.382	0.397	102%	4%	1 ½C
Inventory turnover (COS/Inventory)	3.9X	3.1X	3.7X			1
Not completing all years, rounding, wrong days						-3
<b>Available</b>						<b>25</b>
<b>Maximum</b>						<b>12</b>
<b>Total for part (d)(i)</b>						<b>12</b>

<p>Part (d) In order to assist Tshepo with the working capital analysis – (ii) comment on the outcomes of the analysis.</p> <ul style="list-style-type: none"> <li>• Round all workings and final answers to the nearest whole number.</li> <li>• Use year-end (and not average) balances in the calculation of any supporting amounts or ratios.</li> <li>• Use 365 days per year when calculating relevant ratios.</li> </ul>	<p>Marks</p>
<p>1. <b>Total sales and cash sales deteriorated</b> in FY2020, possibly due to <b>subdued consumer spending as a result of the lockdowns</b>. Credit sales however increased, possibly due to the attractiveness of credit in a difficult economic environment where they can pay later.</p>	<p>1 1</p>
<p>2. The <b>cash conversion cycle worsened in FY2020</b>, mostly due to the <b>drastic increase in debtors' days</b>, which was likely caused by the global pandemic, and reduced customer cash flows / affordability / lost jobs / lower incomes. <b>In FY2021</b>, the cash conversion cycle <b>remains elevated</b> driven by the accounts receivable days, which are deteriorating further. <b>OR</b> Cash conversion <b>cycle improved due to substantial drop in inventory days</b> – need to investigate whether this was due to improved inventory handling or because of special sales (to move old stock, often at reduced prices) or because of stock write-offs or because of increased credit sales.</p>	<p>1 1</p>
<p>3. <b>Inventory days increased by 27%</b> from FY2019 to FY2020, indicating a <b>build-up of stock</b> in 2020, possibly as a result of <b>lower consumer spending / pandemic lockdown</b> (sales were not allowed). However <b>inventory levels remain relatively constant</b> with a limited increase in inventory levels of 6%. Using year-end balances instead of average balances creates potential confusion in the interpretation of the ratios. Therefore, using average balances would provide more informative information for the analysis <b>The inventory days appear to be returning to pre-COVID levels in FY2021</b>, perhaps indicating <b>improved sales</b>. However, when considered with the increase percentage of sales on credit, the reduction in inventory is mostly due to <b>increased sales on credit</b>.</p>	<p>1 1 1</p>
<p>4. <b>Accounts payables days</b> have been <b>decreasing</b> since FY2019, indicating that the delays in cash inflows from customers did not impact its payments to creditors. <b>Management should consider using accounts payable more actively as a source of finance</b>, especially with payment holidays provided by most suppliers.</p>	<p>1 1</p>
<p>5. <b>Decreasing trade payables balances may be indicative</b> of creditors also facing liquidity issues in the difficult economic climate, <b>putting pressure on RainbowT to pay</b>, as they are worried about RainbowT's affordability / sustainability.</p>	<p>1</p>
<p>6. <b>Credit loss allowances as a percentage of sales</b> has increased to 8% in FY2020 and 11% in FY2021, indicative of the <b>deteriorating quality of debtors</b>. This ratio is not showing any signs of recovery to pre-COVID levels. FY2020 losses probably due to customers' struggling with finances as a result of the pandemic lockdown.</p>	<p>1</p>
<p>7. <b>Accounts Receivable days are much higher</b> than the stipulated terms of <b>net 30 days</b>, which indicates that debtors are ignoring the terms of payment / that sales are being made to <b>uncreditworthy debtors</b>. <b>Credit screening procedures</b> – What procedures are followed to decide on whether a customer <b>is credit worthy</b>, such as: Performing credit worthiness checks (credit scores); Credit history; Credit references</p>	<p>1 1</p>



<p>8. Evaluate whether <b>the discount terms be at an insufficient level</b> or are sales being made to <b>higher risk customers</b>. Consider <b>introducing penalties and interest on overdue accounts</b>. Credit <b>collection procedures</b> – Ascertain what collection <b>procedures are followed to ensure timeous collection of receivables</b>, such as: Age analysis review to identify overdue receivables; Follow up procedures of overdue receivables; Hand over procedures/ legal procedures.</p>	<p>1 1</p>
<p>9. Potential <b>impact of COVID-19 on the debtors balance</b> as clients ran <b>into working capital constraints</b> over the period and this resulted in more clients being unable to make payments as per normal terms.</p>	<p>1</p>
<p>10. <b>Trade receivables more than doubled</b> (155% increase) between FY2019 and FY2020 as <b>more customers have been buying on credit</b>. This can be attributed to a <b>relaxed credit policy</b> and will increase the risk of the company as they might not be able to collect all the outstanding amounts. Credit is normally offered to increase sales – <b>Credit sales</b> however only <b>increased by 26% despite the substantial increase in the trade receivable amounts</b>. Also, <b>total sales actually declined by 21% in FY2020</b>: therefore <b>offering credit increased credit sales</b>, but at the expense of cash sales, which declined even more than credit sales increased.</p>	<p>1 1 1</p>
<p>11. Cash sales are being cannibalized by credit sales – Tshepo needs to look for a <b>way to increase cash sales</b>.</p>	<p>1</p>
<p>12. The <b>bank balance has deteriorated</b> from a positive R1.2 million down to R300k, this is due to the increased working capital absorption which explains the consistent decline. Management <b>should consider obtaining a bank overdraft facility</b> to tide them over for their <b>short term liquidity needs</b> (or comment on potential pressure on debt).</p>	<p>1 1</p>
<p>13. The <b>gross profit margin declined substantially in FY2020</b>. It is normal for the GP% to remain fairly stable from year-to-year. Perhaps this is as a result of <b>special sales at reduced prices, after the lockdown led to ‘obsolete’ stock</b> (although clothing does not deteriorate in value, trends, tastes and seasons change, which may affect sales). RainbowT may not have had any choice but to sell at less than market values to encourage sales and raise cash flow.</p>	<p>1</p>
<p>14. The <b>GP margin in FY2020 is especially worrying</b> – this is probably too low to cover other operating costs (e.g. rental in Mall of Africa would be expensive). <b>Less of an issue</b> currently as the <b>gross profit has recovered</b>, but valid for creating future expectations of volatility.</p>	<p>1 1</p>
<p>15. RainbowT’s ratios should be <b>compared</b> to those of <b>competitors</b> to assess reasonability.</p>	<p>1</p>
<p>16. The trend evidences a concerning increasing cash conversion cycle, which poses a risk of <b>potential cash shortages and liquidity issues</b>.</p>	<p>1</p>
<p>17. Tshepo <b>offers</b> the customers substantial <b>discounts for early settlement</b>. The customers <b>however don’t make use of the discount</b>. In fact the debtors’ payment period has deteriorated. Investigate what the <b>reasons are for customers not using the discount</b>.</p>	<p>1</p>
<p>18. The <b>current ratio and quick ratio have deteriorated</b> (or payment period has increased). These extra days that current assets must be carried results in lower profits.</p>	<p>1</p>

19. The <b>decrease in profitability</b> can also be explained by the significant increase in the allowance for credit losses.	1
<b>Available</b>	<b>30</b>
<b>Maximum</b>	<b>7</b>
<b>Total for part (d)(ii)</b>	<b>7</b>
<i>Communication skills – clarity of expression</i>	<i>1</i>
<b>Total for part (d)</b>	<b>20</b>

Part (e) Discuss, with reference to ethical considerations, whether or not Lebogang should advise RainbowT to accept assistance from MSM.		Marks
	<ul style="list-style-type: none"> <li>Do not discuss any aspect of the SAICA and IRBA codes of professional conduct.</li> </ul>	
1	Since the <b>commission amount is based on the revenue earned</b> , which is based on the <b>amount of financing</b> that is granted, TT Consultants may be incentivised to advise RainbowT to request and/ or accept more financing than is actually necessary.	1
2	Since the CEO of MSM Bank has been <b>implicated in corrupt practices</b> , it is possible that the financing that they are able to provide are the <b>proceeds from illegal transactions</b> Such illegal transactions may involving <b>taxpayers' money</b> , including the current corruption issues plaguing the country, which may cause great <b>reputational harm</b> as it relates to the <b>public interest</b> .	1 1
6	Lebogang should consider the potential <b>reputational damage</b> which may arise from being <b>associated</b> with the <b>CEO of MSM</b> may bring.	1
3	In addition to the above conflict of interest, Lebogang is also a <b>life-long friend</b> of Tshepo and needs to decide between the best interests of her firm and that of a client (and also a friend).	1
4	As a managing partner / <b>Director</b> , Lebogang has a responsibility to the firm in terms of <b>S 76 of the companies act</b> ( act honestly, in good faith and in a manner they reasonably believe to be in the best interests of, and for the benefit of, their companies), to ensure that the firm's <b>interests and reputation are protected</b> and that clients will not endanger the firm.	1
5	In order for Lebogang to meet her fiduciary duty to the firm, she <b>has to discuss the offer</b> from MSM Bank with RainbowT, but she can bring to the company's <b>attention the potential consequences</b> of entering into the transaction.	1
7	In addition Lebogang should also <b>ensure that the advice</b> that she gives to her new client, RainbowT is <b>sound</b> and steers them in the correct direction from both an <b>ethical and business perspective</b> .	1
8	The consequence would be that <b>RainbowT can also be negatively affected</b> by the affiliation with MSM Bank. Furthermore, RainbowT runs the risk that <b>FVC might withdraw support</b> or funding from RainbowT given an affiliation with MSM Bank.	1 1
9	As this is a small company, the application of <b>King is recommended</b> but not prescribed. King <b>principles should be applied</b> by the company as suggested including the ethical requirements, effective leadership etc. Lebogang should apply one of the ethical <b>theories such as good for self and good for others</b> . In making this decision, the following approaches / ethical theories may be relevant in deciding what is "good":	1 1 1
10	Lebogang will need to <b>evaluate her goals and principles (virtue theory)</b> and determine whether advising RainbowT to potentially implicate itself in a <b>potentially adverse scenario</b> is aligned with her virtues. Given that she is a <b>CA(SA) and upholds a high standard of ethics</b> , this would not be aligned to her <b>professional virtues</b> (which should correlate to her personal virtues) and therefore she should advise RainbowT to not to take the offer.	1 1
11	In line with <b>King and the Companies Act</b> , Lebogang should be <b>forthcoming, transparent and honest</b> with Tshepo regarding the transaction and related risks.	1

12	Going into <b>business with the CEO is not good for “self”</b> in the sense that it is not sound business practice as the factoring agreement will give rise to discounted receivables which could <b>hamper profitability and cash flows</b> , although this is <b>good for the “other”, namely the CEO and MSM Bank</b> (sound business ethic principles)	1 1
13	When considering the impact on <b>all stakeholders</b> , even though <b>TT Consultants may benefit</b> from this agreement via the referral fee, this may <b>negatively impact RainbowT</b> through association with MSM Bank and thus Lebogang should not advise on this offer as it may be to the company’s detriment.	1
14	The standard for <b>good behaviour through pure rational reflection</b> lends itself to the fact that Lebogang, as a CA(SA), with an understanding of the <b>current negative impact around the CA(SA) profession</b> and the need to uphold objective standards of good behaviour should strive to avoid being implicated in situations that will <b>further tarnish the profession</b> i.e. MSM Bank’s allegations of bribery.	1
15	Lebogang should encapsulate the concept of <b>“Ubuntu”</b> and respect and understand that she needs to help RainbowT to achieve the best outcome that is aligned with <b>prioritising all parties</b> above just her own business. Effectively, if RainbowT fails because of the agreement with MSM Bank, this will also <b>reflect poorly on Lebogang within the community</b> as she is the one who advised him on this course of action.	1
16	Lebogang to consider the <b>appropriateness of being remunerated twice</b> for the same service: hourly rate for advising Rainbow T but also getting a referral fee on securing the funding. This may not be considered <b>fair business practice</b> .	1
17	<b>Conclusion</b> Therefore, Lebogang should discuss the MSM Bank offer made but should explain clearly to RainbowT <b>what the risks are and advise accordingly</b> that it should not accept the offer from MSM Bank. Valid conclusion.	1
<b>Available</b>		<b>22</b>
<b>Maximum</b>		<b>8</b>
<i>Communication skills– appropriate style</i>		1
<b>Total for part (e)</b>		<b>9</b>
<b>Total for question 2</b>		<b>50</b>