

Part (a)	Discuss whether Pine will have any obligations to report issues arising from the acquisition and rezoning of the Ceres property as reflected in the summary of minutes of the board meeting held on 13 September 2022, once he took note of the decisions taken.	Marks
1	Although Pine was not at the meeting where the rezoning of the property was addressed, his reporting responsibility is not eliminated as the minutes of the meeting was shared with all directors.	1
2	Based on the minutes the following issues can be identified: The board's resolution regarding the allocation of R195 000 to 'convince' the Ceres municipality mayoral committee members to approve the rezoning of the Ceres property is nothing more than the approval of the payment of bribes . This is both unethical and most likely illegal (corruption) in terms of the Prevention and Combating of Corrupt Activities Act (PRECCA). It would appear as if the construction that started on the property was before the rezoning of the property. This is therefore another action by the board that appears to be illegal.	1 1
3	Pine will have reporting responsibilities when he becomes aware of these circumstances, both in his capacity as a director of PG in terms of the Companies Act and PRECCA and, as a Chartered Accountant (SA) in business [who is subject to Parts 1 and 2 of the SAICA Code of Professional Conduct].	1 1
4	Companies Act and PRECCA reporting responsibilities:	
4.1	In terms of section 76 of the Companies Act, Pine should have called for an urgent board meeting to express his concerns regarding the resolution passed and to attempt to get the board resolution reversed and to stop construction, as it is not in the best interest of the company, nor are the other directors acting in good faith.	1
4.2	Pine, as a director of the company, will also have a reporting responsibility to the Directorate for Priority Crime Investigation (SAPS) under PRECCA, due to the fact that the amount of the bribe is more than R100 000 .	1
5	CPC reporting responsibilities:	
5.1	As a director and CA (SA) in business, Pine meets the definition of a senior professional accountant in business as he can exert significant influence over decision making of PG. There is a greater expectation for such an individual to respond to non-compliance within the entity.	1
5.2	In terms of section 260 of the SAICA Code of Professional Conduct:	
5.2.1	the payment of the bribe is an example of intentional 'non-compliance with laws and regulations' envisaged in this section by management (i.e., this is specifically listed as such in section 260.5.A2 of the Code).	1
5.2.2	commencing with construction work on property which is not zoned appropriately is also an example of intentional 'non-compliance with laws and regulations' by management envisaged in this section.	1
5.2.3	The above is also considered significant to PG as it could lead to severe fines and penalties.	1
5.2.4	Accordingly, once Pine has obtained a full understanding of the matter, he has the responsibility to report the matter to the board of directors and then determine if further action is necessary. (section R260.14 of the Code).	1

5.2.5	Pine will also have to determine whether he has a reporting responsibility to the PG's external auditor is necessary, i.e. if the matters are not presented fairly in the financial statements, or a Reportable Irregularity should be reported (in terms of section R260.15 of the Code) or whether obtaining legal advice would be necessary.	1
5.2.6	In addition, Pine should enquire whether any payments have been made to councillors. If the bribes have been paid already , he may have to report this matter to an appropriate authority after reporting to management, e.g. the SA Police Service (in terms of section 260.20 A2 of the Code), given the nature and extent of the substantial harm that may be caused by the matter to investors, creditors and employees should the matter become public.	1
6	Pine should also consider whether the illegal construction work which has commenced would have to be reported to an appropriate authority. This could include the local municipality (in terms of section 260.20 A2 of the Code), again given the nature and extent of the substantial harm that may be caused.	1
7	Yes , Pine will have a reporting responsibility due to non-compliance with laws and regulations as well as possible corrupt activities taking place.	1
Available		16
Maximum		7
Communication skills - clarity of expression		1
Total for part (a)		8

Part (b) Discuss any concerns you may have about Daisy's conduct with reference to the Companies Act and the SAICA Code of Professional Conduct.		Marks
1	Daisy is a Chartered Accountant (SA) in business who is subject to Parts 1 and 2 of the SAICA Code of Professional Conduct.	1
2	<p>Daisy recommended that Wize & Willow be appointed as PG's Registered Auditor. This is of concern as it may create a familiarity threat to that auditor's independence.</p> <ul style="list-style-type: none"> Daisy did not recognise this threat and the importance of the independence, in fact and appearance, of the external auditor as required by the Companies Act, therefore there is a self-interest threat to her professional competence and due care/professional behaviour as she is not acting diligently and complying with professional standards. <p>Furthermore, hiring Wize & Willow creates intimidation/self-interest threats to Daisy's objectivity/integrity which are not at an acceptable level for the following reasons:</p> <ul style="list-style-type: none"> Daisy completed her training contract with the firm very recently, therefore she is familiar with the testing methodology and employees, and she can exercise undue influence on the audit team and procedures they perform; and Daisy is transacting with staff members of Wize & Willow regarding the hiring of stalls at special prices, she has a conflict of interest and is therefore not being straightforward and honest in her dealings. <p>Daisy may have an ulterior motive for recommending the appointment of Wize & Willow.</p> <ul style="list-style-type: none"> As she has knowledge of the audit methodology that will be followed, it may increase the likelihood of fraud that she is planning to perpetrate remaining undetected. This will cause a self-interest threat to integrity, as she will not be honest and straightforward in all her business dealings. <p>Daisy will be preparing most of the audit working papers to save on the audit cost, which is not appropriate as the auditors should document their own audit work. This causes a self-interest/self-review threat to Daisy's professional competence and due care as she is required to know that this will cause non-compliance to the ISA's by the auditor.</p>	<p>1</p> <p>½ ½ ½</p> <p>½ ½ ½ ½</p> <p>1</p> <p>1</p> <p>1</p> <p>½ ½</p> <p>1</p> <p>½ ½</p>
3	<p>Daisy was part of the board members who approved the budget for the bribe of R195 000 to be used to convince the Ceres municipality mayoral committee members to approve the rezoning of the land as well as the approval of the possible early construction.</p> <ul style="list-style-type: none"> Thereby she acted in breach of section 76 of the Companies Act, because this decision could cause substantial harm to PG should the payment of bribes to councillors become public. . <p>In terms of the CPC, this creates a self-interest threat to integrity:</p> <ul style="list-style-type: none"> In terms of section R250.7 of the SAICA Code, a professional accountant (such as Daisy) is prohibited from encouraging others (i.e. Oswald) to offer inducements that would 'improperly influence the behaviour of the recipient' (i.e. will cause the recipient to act in an unethical manner), yet she supported the resolution to allocate a budget of R195 000. This is not considered being honest and straight forward in her business dealings. 	<p>1</p> <p>½ ½ 1</p>

4	<p>Daisy was part of the board meeting where the annual bonus to the executive directors was approved.</p> <ul style="list-style-type: none"> The payment of remuneration to directors requires the approval of the shareholders by means of a special resolution (in terms of section 66 of the Companies Act). It is odd that Daisy did not raise this, and in fact voted in favour of the resolution, and seemingly will proceed to implement the bonus scheme from FY2023. Daisy did not declare her own financial interest in terms of section 75 and did not excuse herself from the voting. Daisy did not identify that the remuneration model is not sound and is likely to lead to decisions being taken by the executives to boost their remuneration in the short term, to the long-term detriment of the company and its stakeholders. <p>This is evidence of a self-interest threat to Daisy's objectivity/integrity as:</p> <ul style="list-style-type: none"> In approving the remuneration, she failed to identify and/or appropriately deal with the conflict of interest that arose between her own personal financial interests and those of the company / its shareholders and she allowed her professional judgement to be compromised (contrary to the requirements of section 210 of the SAICA Code). She is also not acting straightforward and honest by not declaring her personal interest in the matter. 	<p>1</p> <p>1</p> <p>1</p> <p>$\frac{1}{2}$ $\frac{1}{2}$</p> <p>$\frac{1}{2}$</p> <p>1</p> <p>1</p>
5	<p>There is a significant familiarity threat to objectivity, which appears not to have been addressed, as Daisy is Lily's daughter, and is also dating Pine. This may result in her being reluctant to make decisions that do not have the approval of the two of them. Furthermore, this could result in Daisy not recognising the flaws in the board composition.</p>	<p>$\frac{1}{2}$ $\frac{1}{2}$</p> <p>1</p>
6	<p>Her conceptualisation of the scheme to benefit from the 'late stall booking' discounts, means that Daisy is in breach (self-interest threat) of the principle of integrity. She is dishonest in her business dealings.</p>	<p>1</p> <p>$\frac{1}{2}$ $\frac{1}{2}$</p>
7	<p>Daisy's behaviour has created a self-interest threat to professional behaviour/professional competence and due care due to her:</p> <ul style="list-style-type: none"> Non-compliance with the Companies Act (s66, s75, s76) as well as the PRECCA through the approval of the bribe and executive bonus which was not in the best interest of the company. Manipulation of the booking system, she is not complying with s28 of the Companies Act requiring a company to keep accurate and complete accounting records. Failure to attain and maintain the professional knowledge of the Companies Act, and skill to perform the role of financial director. 	<p>$\frac{1}{2}$ $\frac{1}{2}$</p> <p>$\frac{1}{2}$</p> <p>1</p> <p>1</p> <p>1</p>
<p><i>(Marker note: marks for threats and fundamental principles are only awarded if they are appropriately explained and applied to the scenario)</i></p>		
Available		28.5
Maximum		10
Total for part (b)		10

Part (c) Critically evaluate the appropriateness of the board composition of PG, as well as the suitability of the individual directors serving on the board.		Marks
1	<p>PG is a private company and therefore it is recommended but not compulsory for it to apply King IV. Due to PG's shareholders recognizing the importance of a well-constituted board of directors they are encouraged to apply King IV as far as possible.</p> <p>While the 'proportionality principle' recognises that all the recommended practices in the King Code may be not be appropriate to a company of PG's size, PG should not use it as an excuse not to comply to the King Code.</p>	1 1
2	<p>The company should still ensure that the governing body is comprised of persons with the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively (Principle 7 of the King Code), this can be evaluated as follows:</p> <ul style="list-style-type: none"> • The value that Oswald is able to add to the board is unclear, given that his experience is in the political and municipal domain. OR As mayor he will have important insights about the city/municipality they serve such as demographic knowledge of the population, tourist trends, marco-economic knowledge, and important networks. • His presence furthermore risks alienating potential customers should they not share his political views. • Pine has the potential to ensure objective effective financial oversight over the company, but this is undermined by his relationship with Daisy. • Pine might also be influenced by Lilly, his girlfriend's mother whom he will want to impress, therefore would not act against her in the board decision making process. • While Daisy is a CA(SA) who could add significant value to ensuring sound financial administration at PG, this is undermined by her inexperience: She is a newly qualified CA(SA) and appears to not have the necessary knowledge of the Companies Act requirements (s66, s76, s77). • Daisy has also demonstrated a lack of ethics (hiring WW as auditors, manipulating the stall booking process, etc.) • Daisy's appointment was possibly not formal and transparent as she is the daughter of PG's founder and managing director, therefore under pressure to agree with her mother in all decisions. • However, it would seem that there is balance in the knowledge of the board as Lilly, Pine and Palesa should have knowledge of the industries PG is operating in and there are 2 CA(SA)'s on the board which brings a diverse body of knowledge to the board. • There appears to be good diversity with respect to gender (3 female, 2 male), however sufficient information has not been provided to assess race diversity. 	1 1 1 1 1 1 1 1
3	<p>While the majority of the board members are non-executive directors, there is a risk that none of them are independent:</p> <ul style="list-style-type: none"> • Oswald and Palesa have shareholdings in PG, therefore they have a personal financial interest in the company, and • Pine has a relationship with executive management (Lilly and Daisy), therefore he might be biased towards the opinions. • Due to PG being audited in the current year it does not appear as if the board considered the need for an audit committee or whether the board would be able to perform the necessary duties of the audit committee. It does not 	1 1 1

	seem possible with less than 3 independent non-executive directors on the board.	
4	Moreover, Oswald, the board chair, may not be independent should the value of his shares in PG be material to his personal wealth. In terms of the King Code the board chair should be independent to be able to lead the governing body effectively. Furthermore, there is no mention of an independent non-executive member being appointed as lead independent. (P7RP32)	1 1
5	Bloome family members hold two of the board positions, and Daisy has a relationship with another member (Pine), and these close relationships will undermine the board's ability to hold underperforming board members to account.	1
6	Based on the above governance lapses, the directors are not applying themselves when it comes to governance as Palesa, Pine and Daisy, should be familiar with the requirements of King IV.	1
Available		18
Maximum		9
Total for part (c)		9

Part (d) Discuss the matters that Daisy should have considered before she could have recommended that an external audit is required for PG's annual financial statements for FY2022.		Marks
1	The most important matter that Daisy would have had to consider is whether the Companies Act / Companies Regulations require an audit to be conducted: PG is not a public or state-owned company and as a private company, every shareholder is not a director, therefore an audit is not required in terms of these sections nor is the company exempt. PG does not hold any assets in fiduciary capacity, therefore would not require an audit in this regard.	1
2	Daisy should have enquired whether an audit required by the company's MOI , or whether the MOI was amended during the year to require an audit.	1
3	In terms of Regulation 28, a private company whose public interest score is ≥ 350 ; or is ≥ 100 and its annual financial statements are internally compiled, must be audited. <ul style="list-style-type: none"> As Daisy is responsible for the preparation of the annual financial statements internally and if PG's public interest score is greater than 100, its annual financial statements will have to be audited. 	1
4	PG's public interest score for FY2022 can be calculated as follows: <ul style="list-style-type: none"> 50 points for the average number of employees (assuming that the contract workers satisfy the definition of an employee in terms of the Labour Relations Act. This appears to be the case as they are employed on a regular basis); 17 points for third-party liabilities at the end of the year; 17 points for turnover for the year; and 23 points for every individual who, at the end of the financial year, is known by the company to directly or indirectly have a beneficial interest in any of the company's issued securities (also taking into account the holders of the beneficial interest in the Employee Share Trust). Aggregating these points yields a public interest score of 107 – accordingly, an audit is required .	1 1 1 1 1P
5	Moreover, it is evident that PG is in a growth phase , having just emerged from the effects of the Covid pandemic and as it is in the process of acquiring an additional property for further business development. As such, this score is likely to increase even further into FY2023.	1
6	The audit of the annual financial statements will also enhance its credibility , and may accordingly be more useful to – <ul style="list-style-type: none"> bankers and other financiers, particularly as the company is heavily dependent on debt financing, and will be even more so with the acquisition of the Ceres property (and audit might be a precondition to obtain funding); and employees, given their shareholding in the company via the PG Employee Share Trust. 	1 1
7	Daisy should also have considered the impact of the higher fees payable if an audit is required.	1
Available		12
Maximum		6
Total for part (d)		6

Part (e) In planning the audit of PG for FY2022 – (i) discuss the effect of the information provided on the auditor’s assessment of the risks of material misstatement on the assertions for the revenue class of transactions; and		Marks
1	Risks of material misstatement at overall financial statement level that will increase the assessment of inherent risk and control risk for risks of material misstatement at the assertion level for the revenue class of transactions for all assertions (ISA315.31(b)):	
1.1	The dominance of the Bloome family on the board of directors, and Daisy’s relationship with Pine, will undermine the board’s ability to ensure the integrity of the company’s external reporting, which will increase the risk that material misstatements in the revenue class of transactions and will remain undetected prior to the audit.	1
1.2	The lack of integrity demonstrated by the financial director , increases the risk that the assertions in the revenue class of transactions may be materially misstated due to fraud because of her willingness to rationalize inappropriate conduct. The risk of manipulation is great due to the opportunity that is created by the financial systems not being integrated and manual journals being posted by the financial director. This also causes high risk of control override in the financial systems due to the lack of management integrity and poor segregation of duties.	1 1 1
1.3	As the financial director is responsible for the entire accounting function as well as the preparation of the financial statements , she has the opportunity to materially misstate the financial statements and manipulate all assertions relating to revenue. There is also an increased risk of error as the financial director is a newly qualified CA(SA) and based on the threats to her professional competence and due care there is a risk that the financial statements could be misstated.	1 1
1.4	As this is a first-time audit there is a risk that management takes advantage of the opportunity of the new audit firm to intentionally manipulate revenue as they are aware that the auditors are unfamiliar with their business, revenue trends from prior years.	1
1.5	The new incentive scheme of bonuses based on the profitability of the company may give the executive directors the motivation to manipulate multiple aspects of the financial statements including various assertions relating to revenue in order to inflate their bonus.	1
	Risks of material misstatement at overall financial statement level that will decrease the assessment of inherent risk and control risk for risks of material misstatement at the assertion level for the revenue class of transactions for all assertions (ISA315.31(b)):	
1.6	An off-the-shelf point-of-sale system and a reputable cloud-based accounting software package is used therefore it could be said that the risk of material misstatement is decreased due to the controls in the packages being designed and implemented appropriately.	1
2	Inherent risk factors that affect the susceptibility of relevant assertions to material misstatement (ISA315.31(a)):	
2.1	As per ISA 240 , there is a presumed significant risk with respect to occurrence of revenue. In the case of PG this presumption cannot be rebutted as financials might possibly be used to obtain financing (see below).	1

2.2	As no audit of the financial statements was undertaken in prior years, there is a risk that material misstatements in prior year will cause material misstatements in the revenue that has been recognized for FY2022 (e.g., a cut-off error at the end of FY2021 may result in misstated revenue for FY2022).	1
2.3	Management has an incentive to present a good set of financial results to the financial statement users therefore there is an increased risk of occurrence of revenue due to: The presence of shareholders who are not part of the day-to-day management of PG therefore need to be impressed with the financial statement to retain their investment, PG is obtaining additional debt financing from the bank for the acquisition of the Ceres property, therefore management might need to present a stronger set of financials, by inflating revenue and accordingly the balance sheet (increased receivables)	1 1
2.4	The Green Room revenue has only increased by 1.9% year-on-year, despite the sizeable increases in the revenue at the Green Fingers (21%) and Green Space (58%) business (indicating higher visitor numbers at the PG property) and despite the trading environment no longer being affected by the effects of the COVID-19 pandemic. This increases the risk regarding the completeness of revenue – as all revenue may not have been accounted for. <ul style="list-style-type: none"> • This risk is further increased because Daisy is responsible for the banking of cash and the recording thereof, which provides her with the opportunity to misappropriate cash and fail to record this – lack of segregation of duties. • With cash takings ordinarily accounting for about 20% of total takings, misappropriation of this cash (e.g. by the financial director or others) further increases the risk of material misstatement for this assertion. 	1 1 1
2.5	The sizeable increase in revenue of Green Space (58%), coupled with the large increase in receivables (193%) , increases the risk that fictitious revenue has been recognised, which increases the risk pertaining to the occurrence of revenue. <ul style="list-style-type: none"> • Discounts granted to merchants who pay the rental amounts upfront, increases the risk that revenue may be recognised when it has not yet been earned (should the revenue recognition criteria in terms of IFRS 15 not be satisfied) (occurrence). • The decline in the current liabilities (11%), coupled with the increase in the revenue from the rental of stalls (58%), may be the result of amounts paid in advance and being invoiced on date of payment being incorrectly recognised as revenue. This further increases the risk for the occurrence assertion. • The extended payment terms of up to three months that are offered, increases the risk that revenue may be recorded in the incorrect period (Cut-off and occurrence). 	1 1 1 1
2.6	Discounts granted for upfront payment based on the period of upfront payment or late bookings, increases the risk that revenue might not be calculated correctly/or being recognised gross of discount (accuracy and occurrence). The discount awarded for late booking of stalls (50%) increases the risk that revenue might not be complete as Daisy is manipulating when the bookings occur .	1 1
2.7	Invoices are generated from the booking system, therefore there is a risk that Daisy does not delete the fictitious merchants she booked (occurrence), OR that she does cancel them, and then does not rebook her friends on the	1

	system in order to keep the money they pay into her bank account for herself (completeness). Furthermore there is an increased risk of occurrence and completeness in revenue, as the booking system is not reconciled to the physical stalls occupied.	1
2.8	In conclusion the likelihood of risk of material misstatement at assertion level for Revenue is considered to be high, furthermore due to revenue being in excess of materiality the magnitude to the misstatement is also considered to be high, therefore the inherent risk is at the higher end of the risk spectrum, and therefore can be considered a significant risk. <i>(Mark to be awarded based on candidate discussion and can be awarded whether candidate concluded per assertion or overall)</i>	1 1
Available		26
Maximum		9
Total for part (e)(i)		9

Part (e) In planning the audit of PG for FY2022 – (ii) describe the nature and timing of the audit procedures that are needed to respond to the risk of material misstatement in the completeness assertion for the revenue class of transactions.		Marks
Nature (type)		
1	Based on the above risk discussion there is a significant risk of fraud with respect to completeness of revenue. <i>(Candidates can also argue that there is a reduced risk due to use of financials by 3rd parties)</i> Therefore in considering the nature of testing it is important to note that although controls might not be necessary to test, the control environment and control risk has to be considered by the auditor in terms of ISA 315 (Revised)	1
2	Consideration should be given as to whether a combined or substantive approach should be used.	
2.1	Controls testing might not be possible due to the following:	
2.1.1	Management integrity is questionable , based on various factors discussed above, including Daisy manipulating the booking system	1
2.1.2	The lack of controls in place over the financial statement reporting system – Daisy is responsible for entire accounting function, including banking of cash receipts.	1
2.1.3	However as PG is using of-the-shelf POS and reputable cloud-based accounting software there is a possibility the controls within these systems can be relied on if appropriate ITGC's in place.	1
2.2	It should also be considered if testing controls are necessary i.e. whether substantive testing alone will not be sufficient . Based on the size of the client this does not appear to be the case.	1
2.3	The nature of the audit procedures to be performed on the revenue class of transactions will therefore be substantive in nature , and tests of controls will not be used in view of the evidently poor control environment at PG.	1
3	Substantive tests with a bigger focus on test of detail (compared to analytical procedures) should be performed for the following reasons: <ul style="list-style-type: none"> • Lack of integration of the different accounting systems – revenue recorded on one system are journalised to the other. Substantive testing should therefore be performed on the journals being processed by Daisy, including year-end adjustments. • Level of manual intervention required in the recording of revenue (rental, point of sales recording). • As prior year figures have not been audited, less reliance should be placed on trend analytics. Furthermore, substantive testing should be performed on opening balance of receivables to determine if there is any manipulation evident that will affect revenue. • Due to the significant risk identified, substantive tests of detail are required in terms of ISA 330. 	1 1 1 1
4	Substantive analytical procedures could however also be performed for the following reasons: <ul style="list-style-type: none"> • High volume of smaller transactions, in particular in the nursery and restaurant business. • Predictable indicators, such as gross profit percentages, daily/monthly sales patterns, VAT as % of revenue, which could make analytical procedures beneficial. 	1 1
5	The population from which samples will be selected will not be based on the	1

	transactions recorded in the general ledger, but on other external systems such as the point of sales and space booking systems and plants and garden products purchased, to ensure they are recorded in revenue in the appropriate subsidiary ledgers and GL.	
Timing		
6	Planning of the audit commenced December 2022, more than 2 months after year end, therefore interim audit procedures would not be possible, all testing will occur at the year-end audit.	1
7	Considering the high risk in revenue it would be expected the procedures be focussed/samples of transactions selected close to or after year end in order to identify any manipulation by management.	1
8	Any possible cash count that needs to be performed, must be performed at year-end however planning only started after year end, therefore due to the high risk of fraud it should be at an unannounced time if possible.	1
9	Document numbers of POS transactions and other sales documentation around year end (before and after) , including bank statements of receipts after year end, should be inspected after year end to ensure all revenue transactions are recorded in the correct period. (Testing completeness and cut-off.)	1
Available		18
Maximum		7
Total for part (e)(ii)		8
Communication skills – logical argument		1
Total for part (e)		17
TOTAL FOR QUESTION 2		50
TOTAL FOR THE PAPER		100