

Part (c) Describe the substantive audit procedures that Firehouse should have performed on the disposal of the investment in Maastricht and the corresponding transactions in the separate financial statements of SAMP for FY2022.	Marks
Inspect the accounting policy as per the previous year's financial statements and confirm that the investment should be accounted for at cost price.	1
Obtain a schedule from management setting out all calculations relating to the sale of the subsidiary/Investment in Maastricht (<i>proceeds/consideration, cost price of the investment and the calculation of the profit on disposal of the subsidiary</i>).	1
Cast the schedule received from management to verify calculations for mathematical accuracy (including profit on sale of subsidiary/Investment in Maastricht)	1
Review the schedule for unusual items included or obvious omissions	
Request and inspect a signed management representation letter relating to relevant assertions in respect of the disposal of the investment.	1
Inspect the signed minutes of the board meeting where management discussed the disposal of the subsidiary/Investment in Maastricht and confirm that the sale was authorized by a majority (more than 50%) of the board members and that quorum was reached. (No special resolution because the total assets are not the majority to the group) Recalculate the % sale of the subsidiary to total assets to verify that it is not a majority of assets .	1 1 1
Inspect the memorandum of incorporation (MOI) for any restrictions or conditions attached to the sale of a subsidiary and corroborate whether these restrictions were complied with.	1
Obtain the sales contract and through inspection confirm the following: <ul style="list-style-type: none"> • The date on which Maastricht was disposed off i.e. 31 March 2022 (effective date of transaction) to test accuracy / occurrence. • Cash receipt on 31 March 2022 of EUR926 327; and Cash receipt on 31 March 2023 of EUR611 921. • 100% of the subsidiary is to be disposed of which comprise of 60 000 shares to determine is accurately recorded. • Parties to the contract is Samp and the buyer and it is Signed by both parties to determine is a valid contract (occurrence). • That there are not any other conditions that may result in contingent liabilities or that was not considered in/or may affect the calculations/sale. 	1 1 1 1 1
Inspect the schedule of managements' calculation and confirm that Maastricht has been disposed of at cost by agreeing the cost price of R3 905 508 (EUR376 616 x R10,370) to the prior year signed financial statements / previous years' working papers (Converted to Rand)	1
Obtain the exchange rates from a trusted financial institution as at 31 March 2022 and recalculate the Rand value. (Given in the scenario)	1
Through inspection of the bank statement, confirm the receipt of the proceeds amounting to EUR926 327 x 16,193 = R15 000 013 on 31 March 2022. and recalculate the amount.	1 ½
Recalculate the Deferred payment / Accounts receivable amount of R600 983 x R16,193 = R9 731 718 Recalculate the profit on sale as R20 826 223 and compare to amount in schedule to confirm accuracy.	1 1

Recalculate the interest on the deferred payment (EUR10 938 x 9/12 x 16,533) for 9 months taking into account the 1.82% = R87 988 to confirm mathematical accuracy.	1
Agree the Interest to the presentation in the statement of comprehensive income/ receivable to the presentation in the statement of financial position.	1
Recalculate the remeasurement (forex adjustment) of the deferred payment / accounts receivable balance at year end at closing rate (spot rate) as it is a monetary item.	1
Inspect the notes to the financial statements to ensure that the disposal has been adequately disclosed.	1
Inspect the journal entry, general ledger, trial balance and financial statements for FY2022 to verify that the investment has been removed from the records and the profit on disposal has been recorded.	1
Recalculate the % sale of the subsidiary to total assets to verify that it is not the majority of the assets.	1
Recalculate the tax consequences of the transaction and compare to the tax inclusion by the client taxation calculation to determine accuracy and completeness of tax inclusion.	1
Available	25.5
Maximum	12
Communication skills – clarity of expression	1
Total for part (c)	13

Part (d) Describe the substantive audit procedures that Firehouse should have performed on the fair value less cost to sell calculation of the land only for FY2022.	Marks
Obtain the calculation performed / schedule from management relating to the Land and cast and cross cast for mathematical accuracy./Recalculate FV less Cost to sell.	1
Obtain the appraiser’s valuation report and agree the amount to the schedule obtained.	1
Assess the competence and capabilities and years’ experience of the appraiser through inspection of <i>curriculum vitae</i> and other qualifications.	1
Verify through inspection of an appropriate website/requesting certificate that the appraiser is a registered appraiser with SACPV.	1
Enquire with appraiser and management whether the valuer is independent and follow through any of the following:	1
<ul style="list-style-type: none"> • Inspect share registers and related party listings / employee listing for the surname “Ngidi” to ensure that the appraiser is not included to support his/her independence. • Obtain a signed declaration of independence from management/James confirming that James Ngidi is independent from SAMP 	1 1
Discuss with the appraiser / inspect appraiser's report and obtain an understanding of the scope of the report, and how the valuation was performed , data and models used, etc.	1
Compare the model used and data used with knowledge of similar entities / compared to the international valuers standards in order to verify whether the model and data are consistent with others in the industry and therefore reasonable.	1
Assess whether the method used by James to revalue the land is consistent with methods prescribed in IFRS13.	1

Assess the reasonability of any assumptions and estimates used in performing the valuation with reference to economic and market data.	1
Inspect the report to understand the source data used in the calculation to determine if the data used appears reasonable.	1
Inspect the terms of reference/agreement prepared in advance of the valuation undertaken, paying particular attention to:	1
<ul style="list-style-type: none"> The nature, scope and objectives of James's work as well as James's and management's responsibilities. 	1
<ul style="list-style-type: none"> The extent of James's access to appropriate records and files (were there any scope limitations) 	1
Reperform the calculations of the valuation (after the discussion of the data and model used) for mathematical accuracy	1
Inspect the report to understand the source of data used in the calculation to determine if the data used appears to be reasonable	1
Fair value less cost to sell (FV-CTS)	
Inspect whether any information after year end has impacted on the estimates used in the fair value calculation or if there have been any external factors (i.e. change in interest rates, political issues impacting the viability of sales etc.) which have impacted the value of land.	1
Inspect market listings for similar land in the same area (similar clients) and compare to fair value included on the schedule for reasonability.	1
Inspect similar market listings for costs (e.g legal fees) related to in the sale of such Land and agree to cost to sell included on the schedule.	1
Inspect supporting documents (e.g. quotations) regarding the disposal of the property (i.e. from property agents/legal team) to ensure reasonability of the amount estimated by James.	1
Inspect minutes of Directors meetings with regard to costs discussed, any costs of conversion etc to assess reasonability of inclusion in the valuation.	1
Obtain a management representation letter for management to confirm that the fair value less cost to sell' is correct.	1
Available	23
Maximum	7
Communication skills – clarity of expression	1
Total for part (d)	8

Part (e) With reference to the information contained in section 4.3 – (i) critically evaluate the remuneration alternatives based on good performance evaluation principles; and	Marks
The existing share options were issued two years ago, and management did have a responsibility to consider beforehand the longer-term issues emerging in the company market and the broader industry when they agreed to take these options.	1
It could be argued that the conditions that resulted in the losses (especially the Covid-19 pandemic impact) were outside of the control of these management, especially over such a short time and their performance could have been much better if you only focus on the financial implications.	1
<ul style="list-style-type: none"> it can be argued that the share price change was not within the control of management (changes due to Covid-19, etc.) and therefore the options are not achieving the intended goal. 	1

The share options basically only take the share price into account and therefore the focus is only on the financial aspects and no non-financial aspects are incorporated within the incentive.	1
<ul style="list-style-type: none"> Furthermore, it does not seem like the incentive may be aligned with the strategy of the company. 	1
The two alternatives that were put before the executive are also very extreme and not goal congruent with the incentive that SAMP is seeking.	1
Cash incentives is not an affordable option for SAMP currently.	1
The housing allowances will lead to extra fringe benefit tax implications for the staff and	1
9% salary increases are above the current inflationary increase that can be expected in the current financial climate.	1
The second option of re-issuing at a lower strike price also does not seem like the most ethically sound decision as it benefits the management during poor performance / Only consider financial aspects.	1
Both alternatives could mean a permanent, long-term change to SAMP's remuneration policy and the affordability of these alternatives should be considered in the light of SAMP's deteriorating performance.	1
The sustainability goals (non-financial) are indeed not included in the share options and would not have been measured and rewarded.	1
<ul style="list-style-type: none"> The implementation of further measures should be considered, such as a vesting-criteria based on other KPIs relating to sustainability measures. In this context, a balanced scorecard approach that includes non-financial measures would be appropriate to ensure that these objectives are met. It could be argued that sustainability would be rewarded in the market (through increased sales of SPPs which would lead to an increase in the share price). 	1
To move a company product offering dramatically in a and there is evidence that the management has over the period begun the longer-term restructuring activities to move the business operations.	1
The proposed remuneration schemes would encourage executives to remain in employment with the company, given the easily attainable nature thus this would achieve company objectives.	1
Both options appear not to have benchmarked the options against other companies in the industry	1
The executives will be less motivated to increase the share price of the entity if the exercise price is set lower than the current market price as already receiving something of value i.e. targets are easy to achieve.	1
Valid conclusion	1
Available	19
Maximum	6
Total for part (e)(i)	6

Part (e)	With reference to the information contained under section 4.3 –	Marks
(ii)	discuss any business ethics and corporate governance concerns you may have.	

Governance concerns (including ethical considerations)	
It is a concern that Charl (the CRIO and head of the task team) would put these proposals to the Shareholders as he does not seem to be part of the Remuneration committee. / As an executive he should not be part of the committee and should not be part of this decision.	1
The governing body (through the remuneration committee) is responsible for setting the direction and approving the remuneration policy of the company (P14RP26) it appears as if the suggestions made by the CRIO were not evaluated by the remuneration committee / board before being presented to the shareholders.	1
KING IV principle 1 (Good for self and others)	
<ul style="list-style-type: none"> • Directors: The CRIO possibly would have a conflict of interest here as he would also be benefiting from this and therefore may not be acting in the best interest of the company but for personal gain. (good for self)(Breach of Integrity) 	1
<ul style="list-style-type: none"> • Knowingly breaking the law also displays a lack of integrity 	1
<ul style="list-style-type: none"> • It appears that the CRIO is focusing only on the remuneration of the directors without considering the losses of the shareholders and the possibility of losses of jobs of the employees which does not constitute a stakeholder-inclusive approach (King principle 16). 	1
<ul style="list-style-type: none"> • Company: It should be considered whether their performance in the context does warrant a performance reward and whether they are now receiving remuneration for no results which is not good toward the company. 	1
<ul style="list-style-type: none"> • Shareholders: The reward may be good for others if the actions to date have minimised the losses of the company but the shareholders are absorbing the losses. Or • Shareholders – If the view is taken that the management did not succeed in mitigating losses, then the additional cost, reduction in profit, and resulting dilution would not be good for others. 	1
<ul style="list-style-type: none"> • Shareholders - The shareholders have suffered the loss as raised, and it would be unfair to reward management as a stakeholder when their actions resulted in destroying this value. 	1
<ul style="list-style-type: none"> • Employees – One should also consider whether the directors have performed well in minimising job losses for employees. If they managed to save many of their jobs and retrenching only a few, that would overall be good for others. Or • Employees – If management actions did not result in a saving of overall jobs, and instead in the loss of jobs through possible retrenchment, the reward would be unwarranted. 	1
<ul style="list-style-type: none"> • Other stakeholders - Should the directors be motivated and consequently restructure the company effectively, the other stakeholders would benefit with the directors, for it would address the context of the whole company. 	1
<ul style="list-style-type: none"> • The CRIO is failing to act with accountability as required by Principle 1 because they are proposing a new remuneration policy as the current performance targets are not being met, as opposed to working more effectively to achieve those targets. 	1
King IV principle 14, remunerates fairly, responsibly, and transparently	
<ul style="list-style-type: none"> • Currently it can be argued that for alternative 1 all the alternatives are only focused on short term incentives and this will not adhere to having a combination of incentives. 	1
<ul style="list-style-type: none"> • alternative 2 would then possibly focus on the long-term goals, as well but it does not incorporate an element of non-financial performance and this does not align with the strategic objectives of this company and may have some negative outcomes. 	1

<ul style="list-style-type: none"> It does not seem that the incentives / policy focuses on economic, social and environmental contexts. 	1
As a majority percentage of shareholders objected , the board must record in the remuneration policy the steps it will take in good faith to address the issue by means of a stakeholder engagement process and by addressing the concerns through amendments to the remuneration policy.	1
Principle 14 is not adhered to as it is clearly stated that our executives feel demotivated , and they have little incentive to stay with the group and manage the restructure. The value of the cash bonus, housing allowance, and the lower strike price have not been disclosed ; thus the remuneration policy may not be transparent as required by King IV Principle 14	1 1
In terms of the KING IV the Governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen. This is not the case as can be seen by the breaches of the companies act.	1
<ul style="list-style-type: none"> In terms of the Companies Act (s66(9)) (read with P14RP37) the remuneration policy and implementation report of the directors must be approved by a non-binding advisory votes by the shareholders and if more than 25% of the voting rights exercised voted against it, the board must address the matter through engagements and in view of the comments of the majority of shareholders this does not appear to be possible. 	1
A potential governance expectation gap needs to be considered – what would be reasonable expectation of directors’ performance in economic downturn times such as COVID19 and these need to be taken into account when determining fair remuneration and performance incentives.	1
It is unclear if the long-term financial impact of each of the alternatives on SAMP financial performance and cash flows were considered in order to ensure proposing a sustainable alternative, which is a concern.	1
<ul style="list-style-type: none"> These actions will not be considered in the best interest of the company as per s76. No consideration was given that a special shareholders resolution is required to approve executive remuneration. 	1 1
Available	23
Maximum	14
Total for part (e)(ii)	14
Communication skills – logical argument	1
Total for part (e)	21
TOTAL FOR PART II	42
TOTAL FOR THE QUESTION	100