

<p>Part (a) Discuss, based only on the information in the scenario, the matters of concern that Technica should have considered before it accepted the audit engagement with Chokaroo for FY2022.</p> <ul style="list-style-type: none"> Do not address any safeguards or courses of action Technica should have implemented to address the concerns. 		Marks
CLIENT CONSIDERATIONS		
Professional ethics		
<i>Independence: Auditor-client relationship</i>		
1.	There is a possible intimidation/self-interest threat to objectivity and independence arising from Sandy's apparent willingness to give in to any request of the executive directors of Chokaroo.	½ ½ ½
	1.1 Due to 'significant pressure' placed on her by Technica to acquire more clients, she seems to want to acquire Chokaroo at all costs, even if it means compromising on the fundamental principles.	1
	1.2 The threat is further reflected in her agreeing to the audit being performed in November 2022 when the CEO and CFO will be away on an overseas trip and mostly unreachable, and despite the request that 'complex audit queries' about the financial statements should be addressed only to the executive directors.	1
	1.3 The level of threat will depend on the extent to which Sandy and the other members of the audit team <u>will be able to maintain their objectivity</u> when performing the audit.	1
<i>Independence: other work performed by audit team</i>		
2.	There is a possible self-review threat to objectivity and independence if Technica is to perform deferred tax calculations for Chokaroo in addition to performing the audit of its financial statements.	½ ½

	There is a possible familiarity threat to objectivity and independence if Fundiswa who will be providing training to the accounting staff (as a member of the audit team and also “assisting” them with making journal entries.	½ ½
	2.1 The engagement team could audit their own calculations/journals and could be biased in accepting the outcome of their calculations/journals without professional scepticism, despite possible calculation errors, resulting in material misstatements going undetected.	1
	2.2 The level of the threat will depend on the materiality of the deferred tax liability/asset to the financial statements together with the level of involvement in the calculations and passing of journals by the accounting staff of the audit client.	1
<i>Management integrity</i>		
3.	Integrity concerns about the management of Chokaroo arise from the following and should have been carefully considered by Technica in deciding whether to accept Chokaroo as a client:	
	3.1 The board encourages the removal and purchase of rare and protected species of succulents found in the Karoo, meaning the company is probably engaging in illegal trade and is in non-compliance to environmental laws and regulations.	1
	3.2 Chokaroo specifically advertises its products as having health benefits. and appears to be involved in false marketing practices with little regard for the truth about whether its products have any medicinal value, especially since it specifically advertises its products as having health benefits.	1
	3.3 It appears that the board of directors is not complying with laws and regulations such as the Companies Act because the dismissal and appointment of the auditors was done by the directors and not the shareholders . Or disregard to the Companies Act, in particular related to granting of loan guarantee, without executing the necessary provisions of the Act	1
	3.4 It appears that management is willing to fund personal travel expenses of Marcia’s husband through the entity as they have	

	submitted and obtained approval for the total expense based on all foru travellers.	1
<i>Availability of audit evidence</i>		
4.	Technica will have to determine whether a limitation of scope will be present on the engagement and if so, should not have accepted the engagement (ISA 210.6(b)(iii)).	
4.1	The executive directors request that 'complex' audit queries be addressed to only them could result in audit evidence not being obtainable from the accounting staff who may be knowledgeable about the information being audited.	1
4.2	The executive directors appear to have planned their overseas trip to coincide with the period of the audit fieldwork at the client's premises (November 2022), and are typically 'difficult to get a hold of' when travelling overseas, meaning that audit queries might go unaddressed.	1
4.3	Technica should have assessed the possibility that audit evidence might again not be available, in view of the qualified audit opinion expressed by the previous auditor on the 2021 financial statements or inability to contact previous auditor regarding their working papers and opening balances.	1
4.4	Technica should have questioned the cooperativeness of management in general and the likelihood of intentionally concealing information , seeing that the complaint about false marketing was ignored and that the CEO and CFO plan to be outside the country for the whole of November 2022 and do not want 'complex' audit queries to be addressed to accounting staff.	1
AUDITOR'S CONSIDERATIONS		
<i>Audit resources</i>		
5.	5.1 There does not appear to be sufficient audit managers to assign to audits, given Jason Lewis's comment about Technica's audit managers having very limited time, which could compromise the quality of the audit.	1
	5.2 The audit manager does not appear to have appropriately reviewed the work performed by trainees especially as these working papers	1

	required the use of professional judgement , which could compromise quality of the audit work.	
	5.3 The engagement team does not have sufficient time to perform the audit given the short period of time available.	1
	5.4 Furthermore it can be argued that the audit firm does not have enough time available for training because the trainees must attend online training while they should be auditing a client.	1
<i>Client intending to take Legal action against previous auditor</i>		
6.	6.1 The CEO's threat of litigation against the previous auditor should be evaluated in the light of whether there might be a similar risk for litigation against Technica , to avoid the possibility of a financial loss.	1
	6.2 Technica would also need to determine whether the management of Chokaroo would give it permission to discuss matters with RTH, especially with regard to the reasons for RTH's dismissal and any reasons why they should not accept the engagement.	1
<i>Appointment of Technica</i>		
7	Technica should have considered, prior to accepting the appointment as auditor, whether a vacancy exists in terms of the Companies Act requirements because it seems that the audit committee has dismissed the auditors and not the shareholders. <ul style="list-style-type: none"> • Furthermore the board approved the appointment of the auditors and not the shareholders. 	1 1
PRECONDITIONS FOR AN AUDIT		
8.	Management's understanding of its responsibility for the preparation of the financial statements should be evaluated, as it is concerning that the CEO thinks an auditor should ensure that the financial statements are free from material misstatement.	1
9.	Technica should consider whether Chokaroo would be willing to put in writing that the audit firm will be allowed unrestricted access to Chokaroo's staff as per ISA 210.6(b)(iii)(c), especially seeing that the executive directors want 'complex' audit queries addressed only to them. This could place a limitation on the gathering of audit evidence.	1
10	Technica should consider what implications listing on the AltX may have in the future such as whether Technica has the skills, competence and time to audit a listed company	1

	Available	27.5
	Maximum	15
	Communication skills – clarity of expression	1
	Total for part (a)	16

Part (b) Discuss the professional conduct of Jason, Fundiswa and Alouise in terms of the SAICA Code of Professional Conduct.		Marks
<ul style="list-style-type: none"> Do not address any safeguards or courses of action. 		
Ethical issue 1: Insufficient reviews and guidance on audit by Jason Lewis The audit manager has not performed a proper review of the workpapers and has not answered the trainee accountants' queries involving professional judgement.		1
1.	Application of the SAICA Code of Professional Conduct The audit manager is registered with SAICA as a CA(SA) and within public practice and should therefore comply with parts 1, 3 and 4A of the SAICA Code of Professional Conduct.	1
2.	Fundamental principles Jason has compromised the fundamental principle of professional competence and due care on the Chokaroo audit due to lack of sufficient review of working papers Jason has compromised the fundamental principle of integrity in this regard should he have been dishonest regarding reviewing work while he did not.	1 1
2.1	Jason has not acted diligently and in accordance with applicable technical and professional standards on the Chokaroo audit due to his lack of proper reviews of workpapers (ISA 220.16) particularly since the workpapers required professional judgement and may have required further consultation.	1
2.2	Jason's lack of due care could further impact on the overall quality of the Chokaroo audit as he did not provide the trainee accountants with the required guidance in undertaking the audit.	1

		It is therefore unlikely that the audit would comply with the requirements of ISA220.15 on quality control for an audit of financial statements and in particular due to a lack of direction, supervision and performance.	1
Ethical issue 2: Completing of test answers without undertaking the training course - Fundiswa and Alouise			1
3.		Fundiswa and Alouise provided answers to an online test they received from a fellow trainee without completing the relevant course, despite the specific instructions that the test should be taken individually and sharing of answers was not allowed.	1
4.	Application of the SAICA Code of Professional Conduct Fundiswa and Alouise are registered with SAICA as trainee accountants and both should therefore comply with parts 1, 3 and 4A of the SAICA Code of Professional Conduct (through their employee contracts with the audit firm)		1
5.	Fundamental principles		
	5.1	The integrity of both Fundiswa and Alouise has been compromised because they in effect cheated on a test.	1
	5.2	By using answers shared by another trainee with them, neither Fundiswa nor Alouise is being truthful or honest in making presentations about having completed the test individually and understanding the content of the training course.	1
	5.3	There is also a <u>self-interest threat</u> to the <u>professional behaviour</u> of Fundiswa and Alouise as such dishonesty would discredit the profession.	½ ½
	5.4	The level of the threat is increased because the 3 rd year refused to use the answers and could deem it fit to expose Fundiswa and Alouise.	1
Ethical issue 3: Making use of confidential client information - Fundiswa Fundiswa designed IFRS based exercises using confidential client information			1
Fundiswa intended on using the IFRS based exercises designed using confidential client information to train another client			1
6.	Fundamental principles		
	6.1	The fact that Fundiswa designed IFRS based exercises using confidential client information: Compromises the fundamental principles of confidentiality by preparing material for the training by using client information.	1

		Fundiswa should also know that he is not allowed to use and share confidential information without the clients permission.	1
	6.2	Fundiswa wants to share confidential client information with the accounting staff which creates a self-interest threat to professional behaviour as the sharing of confidential client information would discredit the profession. This creates a self-interest threat to confidentiality because he uses real life examples from another audit client and shares it with the current client.	½ ½ ½ ½
	6.3	Fundiswa should also know that he is not allowed to share confidential information and this brings into question his professional competence and due care. As a trainee accountant, he should have known this.	1
	6.4	The level of the threat is increased because the audit clients whose information is being divulged, probably did not give permission for the sharing of their information with other parties	1
Ethical issue 4: Fundiswa Makwetu assisting with journal entries			
Fundiswa could, during a 'Q&A' session he presents for the audit client's accounting staff, assist them in processing specific general journals relating to Chokaroo's 2022 financial year end.			1
7.	Fundamental principles		
	7.1	A <u>self-review threat</u> to <u>objectivity</u> arises because Fundiswa is recommending adjustments to the accounting information in the FY2022 financial statements through journal entries. <ul style="list-style-type: none"> The audit team, including Fundiswa, might audit the information he has recommended the client to process, meaning they could ignore errors Fundiswa made in order to protect their/his professional reputation. 	½ ½ 1
	7.2	In evaluating the level of the threat it should be determined to what extent Chokaroo's management remains responsible for decisions around the processing of the journal information.	1
Ethical issue 4: Fundiswa creating a training course for the client			
Fundiswa could during the training advise the client on a specific matter that may be subject to audit.			1
8	Fundamental principles		

8.1	A <u>self-review threat to objectivity</u> arises if Fundiswa provides training which results from him advising the client on something that might be subject to audit.	½ ½
8.2	This may in turn also influence the audit opinion as Fundiswa may be providing advice that he would not be able to change later during the audit.	1
8.3	There is a chance that he does not have sufficient technical knowledge to carry out this training, giving rise to a self-interest threat professional competence and due care	1 ½ ½
8.4	In evaluating the level of the threat it should be determined to what extent Fundiswa provides the client with specific versus generic training where the client will remain responsible for applying accounting principles of IFRS.	1
Available		32
Maximum		14
<i>Communication skills – clarity of expression</i>		1
Total for part (b)		15

Part c Discuss any ethical concerns for Technica arising from the chocolate hampers and vouchers received by its audit team members.		Marks
<ul style="list-style-type: none"> Do not address any safeguards. 		
1.	Application of the SAICA Code of Professional Conduct All team members are either CAs(SA) or registered with SAICA as trainee accountants and therefore must comply with parts 1, 3 and 4A of the SAICA Code of Professional Conduct.	1
2.	Ethical issue identified An audit client, Chokaroo, sent gifts to all team members involved in the audit of its FY2022 financial statements, in the form of expensive chocolate hampers and online gift vouchers.	1
3.	Fundamental principles Acceptance of the gifts will give rise to a self-interest and familiarity threat to the engagement team members' objectivity/independence, integrity, and professional behaviour for the following reasons:	$\frac{1}{2}$ $\frac{1}{2}$ $\frac{1}{2}$ $\frac{1}{2}$ $\frac{1}{2}$
3.1	(i) With regard to objectivity, the receiving of gifts could encourage the audit team members still involved in the finalisation phase of the audit to become biased in favour the client at the expense of audit quality, thus compromising their professional judgement. (ii) Furthermore, audit team members who will be assigned to the FY2023 audit of Chokaroo, assuming Technica will perform the audit, could avoid upsetting the client because of an expectation that the gift will recur.	1 1
3.2	(i) In relation to integrity, the gifts could be seen as a possible bribe by the audit client, and if accepted, could result in Technica transgressing laws and regulations dealing with bribery and corruption. (ii) The audit team members might therefore not be straightforward and honest in their professional relationship with Chokaroo and any business dealings involved.	1 1
3.3	In relation to professional behaviour, accepting the gifts could result in the action discrediting the profession if it is seen to compromise the	

		professional judgement of the audit team members or as them engaging in unlawful activities.	1
3.4		The receipt of gifts may be so significant that a reasonable and informed third party would be likely to conclude that the audit team's integrity, objectivity or professional scepticism have been compromised in fact and appearance.	1
4.	Level of threat	In determining the level of the threat, it should be established whether the value of the hamper full of chocolates is material / not material to the audit trainees and whether the intent of the audit client was to improperly influence the behaviour of the engagement team members.	1
Available			11.5
Maximum			6
Total for part c			6

Part (d) Prepare, based on the information in the scenario, the directors' remuneration note that should be included in Chokaroo's financial statements for FY2022 in accordance with the Companies Act of 2008.							Marks
<ul style="list-style-type: none"> Assume the directors attended all the meetings they were required to attend. Ignore comparative figures. 							
Directors' remuneration							1
	Basic salary/ annual fees	Meeting attendance fees	Pension fund contri-butions	Fringe benefit	Loan guarantee	Total	
	R	R	R	R	R	R	
Executive directors ½	3 678 688		275 902	72 888	50 000	4 077 478	
Dave Kingston (calculation 1 & 3)	1 313 280		98 496			1 411 776	½
Sheryl Kingston (calculation 1 & 3)	1 313 280		98 496			1 411 776	½
Marcia Kingston (calculation 2, 4, 6 & 7)	1 052 128		78 910	72 888	50 000	1 253 926	½
Non-executive directors ½	90 000	264 000				354 000	
Godfrey Mabasa (calculation 5)	30 000	80 000				110 000	½

Yolanda Dreyer (calculation 5)	30 000	96 000				126 000	½	
Simon Tshivhase (calculation 5)	30 000	88 000				118 000	½	
	3 768 688	264 000	275 902	72 888	50 000	4 431 478		
Calculations								
1	112 320/1,04 = 108 000 x 8 + 112 320 x 4 = 1 313 280							2
2	92 232/1,08 = 85 400 x 8 + 92 232 x 4 = 1 052 128							2
3	1 313 280 x 7,5% = 98 496							1
4	1 052 128 x 7,5% = 78 910							1
5	Meeting attendance fees of non-executive directors:							
		Board	Audit committee	Remuneration committee	Total		2	
6	Godfrey Mabasa	16 000 x 4 = 64 000		8 000 x 2 = 16 000	80 000		2	
7	Yolanda Dreyer	8 000 x 4 = 32 000	16 000 x 3 = 48 000	8 000 x 2 = 16 000	96 000		3	
8	Simon Tshivhase	8 000 x 4 = 32 000	8 000 x 3 = 24 000	16 000 x 2 = 32 000	88 000		3	
9	Loan guarantee – difference in interest: 2 000 000 x 11% x 5/12 = 91 667 & 2 000 000 x 5% x 5/12 = 41 667 91 667 – 41 667 = 50 000							2
10	Fringe benefit Overseas travel expenses of Marcia's husband: R291 552 / 4 = R72 888							1
					Available		24	
					Maximum		18	
					Communication skills – presentation		1	
					Total for part (d)		19	

Part (e) Describe the substantive audit procedures you would perform to obtain sufficient appropriate evidence regarding the loan guarantee granted to Marcia.		Marks
<ul style="list-style-type: none"> Do not include any procedures dealing with the accuracy or valuation of the guarantee. 		
1	Inspect the minutes of the board meeting where the decision to grant a guarantee for a loan from Better Bank to Marcia was approved , noting whether the board –	1
1.1	applied the solvency and liquidity test and was satisfied that these requirements would be met; and	1
1.2	considered whether the terms on which the loan is to be granted are fair and reasonable to the company.	1
2.	When inspecting the minutes of the board meeting, also inspect these for evidence that –	
2.1	Marcia disclosed her personal financial interest before the matter was considered at the meeting;	1
2.2	Marcia recused herself prior the vote taking place, and did not participate in the voting; but	1
2.3	she was taken into account in determining if a quorum was present at the meeting; and	1
2.4	the supply of the guarantee was approved by the majority of directors present, excluding Marcia.	1
3.	Inspect the Chokaroo's trial balance / management accounts shortly after 1 May 2022 and recalculate the total assets and liabilities and current assets and liabilities respectively to ascertain whether the company was in fact solvent and liquid .	1
4.	Inspect Chokaroo's Memorandum of Incorporation to ascertain whether there are any other conditions or restrictions regarding the granting of the guarantee, and if so, inspect the Board minutes for evidence that these were complied with.	1
5.	Inspect the minutes of the shareholders' meeting for a special resolution passed within the previous two years where the granting of a guarantee to a director was approved.	1
5.1	Inspect the minutes to ensure that at least 75% of the voting rights (or the company specific requirement) exercised on the resolution voted in favour of the resolution at a duly constituted shareholders' meeting.	1
6.	Inspect a copy of the written notice of the resolution sent to all shareholders and the trade unions (if applicable) to ascertain compliance with the requirements of s45(5) of the Companies Act (10 business days or 30 business days)	1
7.	Inspect the signed agreement with Better Bank indicating that Chokaroo will guarantee the loan to Marcia for a period of 20 years effective from 1 May 2002; and	1
7.1	Note any terms and conditions that might require Chokaroo to be liable to pay the loan.	1
8	Inspect the notes to the FY2022 financial statements of Chokaroo to ensure that	
8.1	the guarantee for the loan to Marcia was appropriately disclosed in the related party note detailing the nature of the related party relationship as well as the detail of the guarantee given (IAS24.18); and	1

8.2	the difference in the value of the interest actually charged and the value of the interest that would reasonable be charged is disclosed as part of the directors' remuneration note (s30(6)(g) of the Companies Act).	1
	Available	16
	Maximum	12
	Total for part (e)	12
	TOTAL FOR PART I	68