

Part (a) Describe, with reference to work paper A315-15, the risks of material misstatement at the overall financial statement level for Buy2Rent.		Marks
1.	Buy2Rent is planning to list on the JSE as a REIT in 2026 and will therefore have an incentive for management to manipulate the financial statements to meet these listing requirements.	1
2.	<i>A controlling interest was obtained during the year in a foreign operation: Separate financial statements</i>	
2.1.	The CEO's wife is on the board of Galac, which increases the risk of not accounting for the investment, or the relevant tax effects .	1
2.2.	There is a risk that the transaction might not have been at arm's length , especially since the CEO's wife is a board member of Galac.	1
2.3.	There is a risk that with the new group structure, related party transactions (including related taxation effects) are not appropriately identified and disclosed in the <i>separate financial statements</i> .	1
	<i>Group financial statements</i>	
2.4.	There is a risk that the acquisition in Galac may be incorrectly accounted (first time consolidating) for in the consolidated financial statements due to the complexity associated with business combination requirements in terms of IFRS 3 (especially due to the consideration being made in payments).	1
2.5.	The foreign operation , and underlying assets, liabilities, equity, profit or loss and other comprehensive income items, may be incorrectly accounted for using the incorrect exchange rates in the <i>consolidated financial statements</i> .	1
2.6.	The investment in Galac was obtained during the financial year and Galac has a different year end, which may lead to errors in the allocation of values across the SOFP, SPLOCI and SOCE.	1
2.7.	Intercompany transactions may not be appropriately eliminated during consolidation.	1
2.8.	As this will be the first year that the company must present consolidated financial statements , it will increase the risk of errors occurring in the financial statement because there might not be controls implemented to detect errors and/or the staff may not have up-to-date knowledge of the IFRS requirements.	1
2.9.	Galac is located in a foreign jurisdiction , hence the internal controls (including those related to legislation compliance and preparation of financial statements) may differ significantly or might be ineffective in comparison with Buy2Rent's internal controls.	1
3.	<i>Given the market conditions and other economic conditions prevalent in the operating environment (various indicators)</i>	
3.1.	Buy2Rent may be facing going concern problems due to low economic growth and high unemployment , and the company may fail to make additional disclosure in the financial statements, hence the use of the going concern assumption in the preparation of the 30 June 2022 financial statements might be inappropriate .	1
3.2.	Buy2Rent may be facing going concerns problems due to changes in consumer behaviour that resulted in decreased demand for space due to Covid-19 , hence the use of the going concern assumption in the preparation of the 30 June 2022 financial statements might be inappropriate .	1
3.3.	Management will have an incentive to overstate assets and understate liabilities in order to present favourable financial results as a result of the financial pressure experienced due to the aforementioned indicators.	1

4.	<i>The audit partner and audit firm are newly appointed, which may lead to the following risks of misstatement:</i>	
4.1.	Opening balances might be misstated/ may contain material misstatements as management has the opportunity to make adjustments that the new auditors may not detect / the client was not audited in the past.	1
4.2.	Management is aware that the auditors are new and could use the opportunity to commit fraudulent financial reporting that could include changing the accounting policies/not applying them consistently to the prior year in the hope that the new auditor does not detect such changes.	1
5.	<i>The finance function is poorly structured</i>	
5.1.	The CFO, Max, is not complying to any CPD policies to update his knowledge and has indicated that he has not kept up to date with changes in the market, etc., which may lead to errors in the financial statements as there may be a lack of technical knowledge in the person leading the accounting staff.	1
5.2.	The finance team consists of the CFO and two other staff members, hence the division staff is: <ul style="list-style-type: none"> • Not fully qualified (part-time students) staff and potential lack of CFO competence: This in could lead to errors in the preparation of financial statements. • Understaffed: This increases the pressure on the team to meet normal deadlines and prepare financial statements especially since the team has more work (investment in Galac), which increases chances of errors. 	1 1
6.	<i>Control environment considerations</i>	
6.1.	Max's integrity (deliberate)/ competence (lack of knowledge) is in question since he did not consider the inclusion of the loan granted to him as a shareholder loan (was omitted), which indicates that the control environment might be weakened under his leadership as CFO (potential override of controls) .	1
6.2.	Max's integrity is in question since he is trying to deliberately deceive employees (users of the financial statements) with fraudulent financial reporting (misleading disclosure of waiver of loan) and he did not consider the inclusion of the loan granted to him as a related party (was omitted), which indicates that the control environment might be weakened under his leadership as CFO .	1
6.3.	Max indicated that the limited disclosure of the related party transaction (shareholder's loan) was intentional (to prevent disgruntled employees), hence indicating that there might be other instances of intentional fraudulent financial reporting .	1
6.4	As there have been evidence of breaches in complying with the Companies Act (s46, s66, s75, s76) by the board of directors, the financial statements may be misstated to hide the non-compliance. <ul style="list-style-type: none"> • This would also decrease the efficacy of the control environment within the company. 	1 1
Available		23
Maximum		11
Communication skills – clarity of expression		1
Total for part (a)		12

Part (b) With respect to the shareholder's loan – (i) discuss the matters that Deppa should consider in determining whether the financial statements of Buy2Rent are fairly presented in all material aspects in terms of the applicable financial reporting standards, and whether it complies with relevant legislation; and		Marks
1.	The following matters indicate non-compliance with the Companies Act (legislation) and consequently, if these matters have not been disclosed correctly, it will not lead to fair presentation of the financial statements.	
1.1.	The loans were made out to shareholders of the company, and the waiver of the loan will therefore be regarded as a distribution (in terms of s1).	1
1.2.	It should be considered whether the requirements of s46 were met before the waiver of debt of a shareholder was approved, in particular: <ul style="list-style-type: none"> It does not appear that the board assessed whether Rent2Buy will satisfy the solvency and liquidity requirements after the loans are written off. Based on the minutes of the meeting held 15 December 2021, the board did not acknowledge by way of a resolution that they applied the solvency and liquidity test and are satisfied that Rent2Buy will still be solvent and liquid after the debt of Pete/and Max was waived. 	1 1 1
1.3.	It should be considered whether Pete (the CEO) and Max (CFO) alerted the board that included in the loans to shareholders were their own outstanding loan/other information not publicly known related to the loans. <ul style="list-style-type: none"> It does not appear that Pete/Max notified the board of directors of their shareholders loan and therefore, they might have contravened s76(2)(b) of the Companies Act that requires a director to communicate any important information (even if immaterial) that might not be publicly known. 	1 1
1.4.	It should have been considered whether Pete and Max recused themselves from taking part in the voting related to the waiver of the loans and; <p>whether they left the meeting before the decision was taken (s75).</p> <ul style="list-style-type: none"> It appears that Pete and Max remained present (did not leave) in the board meeting when the decision to waive the debt was considered by the board; and Pete and Max did not recuse themselves from taking part of the voting related to the waiver of their loans since they voted in favour of it, even though they would benefit from the waiving of the loan, which is against the requirements of s75 (read with s76(4)&(5)). (They attended this meeting in the capacity of director but has a financial interest in the meeting) 	1 1 1 1 1
1.5.	As the waiver should be classified as remuneration (s30) , hence Debbe should have considered whether the transaction was authorised by the shareholders by way of special resolution. <ul style="list-style-type: none"> It does not appear that the waiver of Pete's and Max's loans were subject to a special resolution within the previous two years in terms of s65(11)/s66(9) due to it being remuneration. 	1 1
1.6.	Should a special resolution not be obtained, this transaction can be set aside/ might be null and void (it being with a company in which the	1

	director has a significant interest) and the board of directors, except Oby who voted against the waivers, could be held liable for any loss.	
1.7.	The below-market element should be accounted for (and disclosed) using IAS 19 if this is paid to an employee (CEO and CFO), classifying the differential in interest as part of remuneration in terms of s30(6) of the Companies Act.	1
2.	It should be considered whether the requirements of s28, that the financial records are accurate and complete and s29 of the Companies Act that requires the financial statements to be a fair and true view of the financial performance and position of the company was adhered to. Hence, financial accounting implications (not discussed above) per the financial reporting standards (IFRS) need to be considered (required by s29)	1
2.1.	It appears that only the one loan to Pete was regarded as a related parties' loan and the loan to Max was not included in the related parties disclosure note , which is an indication that identification of related parties as required by IAS24 was not properly executed .	1
2.2.	The CFO indicated that no other disclosures will be made and, therefore, there will not be any disclosure of the distribution included , which will lead to a misstatement in terms of IAS 1.	1
2.3.	The disclosure currently suggests to users that the loan was settled while the loans were in fact waived , which would lead to a misstatement in the related party's disclosure note and could be perceived as misleading (in contravention with the Conceptual Framework for Financial Reporting) .	1
2.4.	Additionally, no disclosure note is provided to report on loans to shareholders in the current year or prior year financial statements, which indicates non-compliance with IAS24 disclosures .	1
2.5.	The comparative disclosure required in terms of IAS 1 will be misstated as the related parties' amounts were not disclosed correctly in the prior year (Max's loan was omitted).	1
2.6.	The loans were made to related parties and therefore should have been split into the below-market and residual loan elements , which appears to not have taken place.	1
2.7.	It does not appear that the waiver of the loans was accounted for as a salaries expense and hence director remuneration note disclosures would be inappropriately affected.	1
	Available	23
	Maximum	8
	Total for part (b)(i)	8

Part (b) With respect to the shareholder's loan – (ii) discuss your concerns with regard to the decision made by Deppa to exclude the waiver from the summary of unadjusted differences.		Marks
1.1.	The audit partner only considered the misstatement's quantitative aspects and ignored the misstatement's qualitative nature (NOCLAR, etc.) due to non-compliance with legislation, which would make the misstatement material.	1
1.2.	The misstatement in disclosures is qualitative in nature and significant since it relates to related party transactions and would affect the schedule of audit differences regardless of its value .	1
1.3.	It appears that the audit partner may have used performance materiality/planning materiality in evaluating the misstatement and not professional judgement by considering the qualitative nature of the misstatement.	1
1.4.	The audit partner appears to not have considered the requirements of ISA450 and the impact the unadjusted audit difference (disclosure) would have on subsequent financial years , since it was not included in the schedule of audit differences (even though the misstatement is deliberate).	1
1.5.	The audit partner did not consider fraud (IAS450.A22) since the intention of the misstatement was to obscure employees from gaining a proper understanding of the waiver of the shareholder's loan.	1
1.6.	It also appears that the audit partner only considered the waiver of the loan to Pete and not the waiver of Max's loan , also a shareholder loan.	1
1.7.	The audit partner did not consider the possibility of a qualified audit opinion that might be issued due to a material disagreement regarding the existence, valuation and presentation of the shareholders' loan (non-compliance with laws and regulations).	1
1.8.	The waiver of the loan to the shareholder would constitute a Reportable Irregularity that the audit partner did not consider, since: <ul style="list-style-type: none"> • an unlawful act occurred – multiple sections (e.g. s28, s29, s46, s66, s76 and s75) of the Companies Act was contravened. • at management level – the entire board of directors except for the chair of the audit committee voted in favour of waiving the debt which did not occur in accordance with the Companies Act. • that would lead to a financial loss of at least R3.5 million to the company as payment will no longer be made by not only the CEO but the CFO as well. • There is a breach of fiduciary duty by the CEO and CFO as they did not bring the loans and personal financial interest to the attention of the board and follow the requirements. 	1 1 1 1
1.9.	As a reportable irregularity must be reported, the audit report needs to also include a paragraph on legal and other regulatory matters , which it appears that the audit partner might not include. It would require the matter to be reported to the audit committee and it would need to be included in the summary of unadjusted differences.	1 1
1.10.	It appears that the audit partner might not have applied professional judgement since the nature of the transaction is such that it leads to concerns about whether the board of directors are acting unethically and perpetrating governance abuses and non-compliance with laws.	1
1.11.	The audit partner did not adhere to the quality control requirements (ISA220R) related to leadership responsibilities since the audit partner	1

	ignored the importance of audit quality of performing audit work in accordance with the ISAs (in particular ISA450) and applicable laws, including the APA .	
2	Concerns related to compliance with the SAICA Code of Professional conduct	
2.1.	Deppa, as an audit partner, is a professional accountant in public practice and therefore, must comply with parts 1, 3 and 4A of SAICA's Code of Professional Conduct.	1
2.2.	The audit partner did not consider NOCLAR requirements in terms of s360 of the Code of Professional Conduct given several instances of non-compliance with the Companies Act.	1
	The following concerns related to compliance with the fundamental principles	
	Objectivity	0.5
2.3.	It appears the audit partner may have been biased towards the fact that Buy2Rent is a new client and did not want to negatively influence the relationship and hence agreed to not reporting the incorrect disclosure of the waiver of the shareholder's loan to the audit committee.	1
2.4.	This lack of objectivity would result in the audit partner to not report a qualitatively material misstatement to the audit committee as Deppa was required to do in terms of the ISAs, raising concerns about the professional judgement of the audit partner.	1
	Professional competence and due care	0.5
2.5	The audit partner did not apply professional scepticism by questioning the CFO for more information regarding the shareholder's loan and the processes followed. Instead, Deppa accepted the answers without further probing , which would have helped to determine if there were other misstatements.	1
	Professional behaviour	0.5
2.6	The audit partner will not be complying with the APA (s45) and ISA standards (e.g. ISA450 and ISA220R) through the decision, hence the professional behaviour of the audit partner is a concern.	1
2.7.	If the facts and circumstances became known to the public, the decision made by the audit partner could bring the profession into disrepute .	1
	Integrity	0.5
2.8.	The audit partner is not acting with integrity as Deppa will not be truthful in the matters that is reported to the audit committee and the schedule of audit differences .	1
	Available	26
	Maximum	11
	Total for part (b)(ii)	11
	Communication skills – logical argument	1
	Total for part (b)	20

Part (c) Calculate the impact of the loans granted to Pete and Max on the total tax payable to SARS by –		Marks	
<ul style="list-style-type: none"> • Pete for the year of assessment ended 28 February 2022; • Max for the year of assessment ended 28 February 2022; and • Buy2Rent for the year of assessment ended 30 June 2022. <ul style="list-style-type: none"> ○ Provide reasons for nil effects. ○ Do not consider the waivers. 			
		Amount	
		R	
1. Pete Cook			
Low interest loan	<p>The interest free loan is granted to Pete in his capacity as a holder of shares, and therefore, is deemed to be a dividend in specie in terms of s64E(4)(b), and Buy2Rent is liable for the dividends tax.</p> <p>There is no para. (k) inclusion in gross income/tax consequences as the dividend is deemed to be a dividend only for purposes of dividends tax/Part VIII of the Income Tax Act.</p> <p>Note: No mark for stating that the loan is capital in nature and not included in gross income, as the granting of the loan took place in a previous year of assessment.</p>		1
		Nil	1
Total tax payable to SARS		Nil	
2. Total tax payable Max Windy			
Fringe benefit: Low interest loan	$R1\,000\,000 \times (5\% - 0\%) \times 290/365$ days = R39 726	39 726	1
Para. (i) of the gross income definition in s 1(1) read with para. 2(f) and para. 11 of the Seventh schedule	ALT: $R1\,000\,000 \times (5\% - 0\%) \times 365/365$ = R50 000		
Note: Interest is calculated using simple interest and daily (s7D(b)) and the benefit ends when the loan is waived.			
As the loan was granted by virtue of such employment, the fringe benefit does not change when he becomes a holder of shares.			
Taxable income	ALT: R50 000	39 726	
Normal tax payable at the maximum marginal rate of tax	$R39\,726 \times 45\% = R17\,877$ ALT: $R50\,000 \times 45\% = R22\,500$	17 877	1P

Note: Max is taxed at the maximum marginal rate of tax because of the remuneration structure at Buy2Rent.			
3. Buy2Rent			
<p>Dividends tax payable to SARS</p> <p>The dividend is deemed to be a dividend in specie and Buy2Rent is liable for dividends tax s64E(4)(b)(i)).</p> <p>The amount is determined in accordance with s 64E(4)(b)(ii) as the greater of</p> <ul style="list-style-type: none"> • Market-related interest in respect of debt less the interest paid • Or nil <p>The “market-related interest” (s 64E(4)(d)) is the “official rate of interest.”</p>	<p>Greater of</p> <ul style="list-style-type: none"> • $R2\,500\,000 \times (5\% - 0\%) \times \frac{168}{365} = R57\,534$ • <i>ALT:</i> $R2\,500\,000 \times (5\% - 0\%) \times \frac{365}{365} = R125\,000$ • Or nil <p>Greater is R57 534 (<i>ALT:</i> R125 000).</p> <p>$R57\,534 \times 20\% = R11\,507$</p> <p><i>ALT:</i> $R125\,000 \times 20\% = R25\,000$</p>	<p>2</p> <p>11 507</p>	<p>2</p> <p>1P</p>
Total tax payable to SARS		11 507	
Available			7
Maximum			6
Total for part (c)			6

Part (d) Discuss the normal tax implications regarding the waiver of the loans for the year of assessment ended 28 February for Pete and Max. ○ Do not discuss any potential capital gains tax consequences for Pete.		Marks
1	Pete Cook	
1.1	The waiver of the loan is a dividend as an amount of R2,5 million has been transferred to Pete on 15 December 2021 by way of a distribution in respect of his shareholding. (Para. (k) of the gross income definition read with dividend definition in section 1(1).) Note: The definition of dividend in section 1 of the Income Tax Act includes an amount transferred by way of distribution. The definition of distribution in section 1 of the Companies Act includes the forgiveness or waiver by a company of a debt owed to the company.	1
1.2	The dividend of R2,5 million will be included in Pete's gross income.	1
1.3	Pete will be able to claim a local dividend exemption of R2,5 million (s10(1)(k)). <i>Note to markers: No marks are to be awarded for discussing para. 12A as the required stated this should not be discussed.</i>	1P
2	Max Windy	
2.1	The waiver of the loan is a taxable benefit as Buy2Rent (employer) has released Max (employee) from the obligation to pay the debt of R1 million owing by Max to Buy2Rent. (Para. 2(h) of the Seventh Schedule.)	1
2.2	Therefore, Para. 12A of the Eighth Schedule does not apply as the waiver of the loan is to an employee in the circumstances contemplated in para. 2(h) of the Seventh Schedule. (Para. 12A(6)(c) of the Eighth Schedule.)	1
2.3	Max will include the cash equivalent amount of the taxable benefit, being the amount owing of R1 million, in his gross income. (Para. (i) of the gross income definition read with para. 2(h) and para. 13(1) of the Seventh Schedule.)	1
2.4	The cash equivalent will be taxed at the maximum marginal rate of 45% OR employees' tax will be withheld in December 2021, as the waiver of the loan is included in remuneration in terms of par2(h) of the Seventh Schedule.	1
Available		7
Maximum		5
Total for part (d)		5

Part (e) Discuss, supported by calculations, the tax implications regarding the waiver of the loans for Buy2Rent for the year of assessment ended 30 June 2022.		Marks
	<ul style="list-style-type: none"> Assume that para. 12A of the Eighth Schedule does not apply to the waiver of the loan to Pete. 	
1.1	The loans to the directors are assets because they are a right to money (para. 1 of the Eighth Schedule).	1
1.2	The waiver of the loans are disposals (para. 11(1)(b) of the Eighth Schedule).	1
1.3	The base cost will be R2,5 million in the case of the loan to Pete and R1 million, in the case of the loan to Max. <i>Note to markers: Mark awarded if both base costs are identified correctly. No separate marks as it is the same principle in both cases.</i>	1
	Pete	
1.4	The waiver of the loan to Pete constitutes a dividend in specie, as it is an amount transferred in respect of a share held in the company (Buy2Rent).	1
1.5	The proceeds on disposal of the loan to Pete will be the market value of the loan, being R2,5 million as the waiver constitutes a dividend in specie (para. 75 of the Eighth Schedule).	1
1.6	Therefore, the capital gain or loss on the waiver of the loan to Pete is calculated as follows: Proceeds = R2.5 million Base cost = (R2.5 million) Capital gain/loss = Rnil	1
1.7	Buy2Rent will be liable for dividends tax <i>Note to markers: No separate mark for stating the waiver of a loan is a dividend as this mark was awarded in part (d).</i>	1
1.8	of R500 000 (R2,5 million x 20%),	1
1.9	payable by 31 January 2022 (s64K of the Income Tax Act). The dividend of R2,5 million is deemed to have been paid on 15 December 2021.	1B
	Max	
1.10	The proceeds on the disposal of the loan to Max will be Rnil as no amount was received (para. 35 of the Eighth Schedule).	1
1.11	The capital gain or loss will be calculated as follows: Proceeds = 0 Base cost = (R1 million) Capital Loss = (R1 million)	1
1.12	As Max is not a connected person (<20% equity shares) in relation to Buy2Rent, the capital loss is not disregarded in terms of para. 39 nor para. 56.	1
1.13	Buy2Rent will aggregate the capital loss of R1 million with other capital gains and losses in determining the net capital gain for its 2022 year of assessment, or the capital loss will be carried forward to the following year of assessment to be aggregated with other capital gains and losses.	1
	<i>Note to markers: The waiver of loan to Max is not a donation as it was not gratuitous. No marks for discussing this as this was stated in the scenario.</i>	
	Available	13
	Maximum	7
	Total for part (e)	7
	TOTAL FOR QUESTION 2	50