

Part (d)	Discuss the key factors that TellMeMore should have considered in evaluating whether or not to develop the ContractAccount application from both a strategic and operational point of view.	Marks
1	<p>ContractAccount aims to resolve an existing shortcoming in the Naught coding, in particular the treatment of sales contracts with complex arrangements:</p> <ul style="list-style-type: none"> • Could Naught merely update its coding to correctly treat these complex arrangements and in so doing eradicate TellMeMore's edge? • What is the cost of monthly human intervention (the accountant) vs automatisisation (additional cost)? • Did they undertake proper market research to confirm the number of interested clients? Is the estimate of 1% reasonable? Will this grow? • Will it be possible to tailor the application to each user's individual complex transaction needs? • Who is the target market? One could argue that it would be listed companies with complex revenue arrangements? Maybe much less customers? Should maybe ask much more per customer? • Is there really a need for this? Does management need this information throughout the year? Management accounts would provide information on key aspects driving value creation. To put it differently – will this information change the way a company does business? 	<p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p>
2	Does the development of an application fit into the overall strategy of TellMeMore and does it carry the support of senior management?	1
3	Does TellMeMore have the necessary internal systems, skills and IT infrastructure to successfully deploy ContractAccount?	1
4	Although TellMeMore might at present be a 'first mover' in this space, the barriers of entry into the application development market is very low. This could lead to rife competition. How long will TellMeMore be able to retain its advantage?	1
5	TellMeMore should have considered whether it would be possible to register a patent for the application development – this would limit competition in future.	1
6	<p>Consideration would have been given to whether the application would be –</p> <ul style="list-style-type: none"> • accessible offline OR via an operational cross platform i.e. IOS and Android? • accessible on multiple devices (phone, tablet, computer)? • available across regions or just to a South African market? • provide push notifications to users to review the accounting treatment of new complex arrangements? 	<p>1</p> <p>1</p> <p>1</p> <p>1</p>
7	The application will be priced at R50 per month. Thus, should TellMeMore not have considered a free application with the option of in-application purchases or alternatively, the release of a 'lite' version of the application? That would have given potential customers the opportunity to experience the application prior to having to make a financial commitment.	1
8	TellMeMore should have considered the financial impact of the application on operating profits, NPV and IRR , including the accuracy of income and expenses.	1
9	What would the quantum of the costs/savings (including tax) associated with development, marketing, regular/future updates and potential new hires/support costs be?	1
10	Alternatively or in conjunction, a break-even analysis should have been performed.	1

11	Will the application have the endorsement of Naught and does such an agreement guarantee TellMeMore exclusive development rights in terms of the accounting treatment of contracts with complex arrangements?	1
12	The application seeks to simplify complex transactions – can it truly cope with all complex and varied transactions , or is it perhaps too simplified?	1
13	How will the application be updated when new accounting standards are introduced?	1
14	TellMeMore should have considered which controls and policies had to be implemented and programmed into the application to avoid users’ information being improperly shared , which would result in irreparable reputational risk. They should have also considered the use of firewalls and virus detection software to protect user’s data (e.g. POPI contraventions).	1
15	Due to the nature of the new venture, is TellMeMore confident that the corporate culture of the organisation would be commensurate to that required for the new strategic endeavour? If not, would it be possible to influence the culture to achieve the desired outcome?	1
16	In addition to the above, what laws and regulations are being impacted by the deployment of the application? Has there been an assessment of whether all identified laws and regulations are being complied with? Is there infringement of patent law?	1
17	The potential legal liability for TellMeMore should be considered in the event a customer of the application suffers any loss from using the application (e.g. due an error or security/privacy infringement).	1
18	Given income will be derived both nationally and internationally, the correct tax treatment may be complex and may require specialist services.	1
19	As the application is dependent on the Naught software, a workable relationship with the software developer/owner of Naught is vital to ensure the sustainability of the app, especially regarding matters such as new versions of Naught (which may require updates of the app), access to Naught client base, etc.	1
20	Only mention is made of IT related experts such as the developer, consultant and tester. The company should also have consulted with an IFRS accounting expert – to ensure the calculations and journals are correctly understood and calculated by the software. In other words – both IT and accounting experts should be part of the development process.	1
21	Integration tests should also have been performed from an operational perspective to ensure effective integration with the other apps/other software (Pastel, etc).	1
22	What are the post – implementation support consequences? Such as implement service contracts with customers – what are the terms and conditions, the level of the continual updates of changing IFRS standards, enough staff to ensure effective post-implementation support, business continuity, disaster recovery and backups.	1
23	When the app was tested (concept version) – it should have included relevant stakeholders (customers) and to test their needs – is it feasible and suitable for their needs? Or is it just presumed that their exact need is known and met?	1
24	Regarding “checking with Azhar” as to ensure app does not exist, more should have been done to ensure there was no existing app that could solve the problem . This is amplified given the massive app market and given the seemingly uncomplicated need the company was facing.	1

25	What is experience, working relationship, understanding of IFRS needs, etc of the application developer ?	1
26	What is the ease of use of the app ? Is it user friendly?	1
27	Maybe an opportunity to give more value through data analytics and machine learning. Maybe the app can predict future revenue?	1
28	From a strategic perspective, it would open up a new revenue stream (diversification) .	1
Available		36
Maximum		15
<i>Communication skills – logical argument</i>		1
Total for part (d)		16

Part (e) Discuss any concerns you may have regarding the professional conduct of Lungile (the audit partner) and Azhar (the independent service provider engaged to provide accounting services).		Marks
1	Azhar, the accountant, is a CA(SA) in business and he should comply with Parts A and C of SAICA’s Code of Professional Conduct; and Lungile, the audit partner, is a CA(SA), which means that he should comply with Parts A and B of SAICA’s Code of Professional Conduct.	1
Accountant – Azhar		
2	The accountant has invoiced for four hours yet spent only ten minutes reviewing the client’s work. This is misrepresenting the hours worked which amounts to fraud . <ul style="list-style-type: none"> • This is a threat to his integrity and professional competence and due care/professional behaviour as he is bringing the profession into disrepute as he has been dishonest. • Possible self-interest threat as it was due to greed/lack of integrity i.t.o. invoicing for more money to be received from the client. • The threat is significant as ten minutes is far too little time to review work. • The safeguard is that the accountant should spend more time on reviewing the work of the client. 	1 1 ½ ½ 1 1
3	The accountant has been calculating the VAT incorrectly , and should have the required technical knowledge to calculate VAT, including the VAT implications relating to capital goods: <ul style="list-style-type: none"> • This is a threat to his professional competence and due care/professional behaviour as he is bringing the profession into disrepute as it is incorrect to apply the tax fraction to the expenditure, • for this means that the accountant is not taking into account exceptions such as denied inputs. The same applies to revenue where exports may be zero rated. • Incorrectly applying the incorrect tax fractions will result in a contravention of the VAT Act. • The threat is significant as he is misstating the VAT balance of the client and bringing the profession into disrepute. 	1 ½ 1 1 1

	<ul style="list-style-type: none"> The accountant should consider if he has the skills and competence to perform the VAT calculation and if not, he should refer the client (safeguard) to an expert. 	1
4	<p>The accountant has not processed all the correct accounting journals in the preparation of the year-end financial statements. He should have processed all the necessary accounting journals, as this is part of his job.</p> <p>Because Azhar signs off the trial balance without a proper review (seldom makes or processes any further adjustments), the financial statements prepared from this trial balance (before the audit adjustments) are not in compliance with IFRS, although the company states that it applies IFRS.</p> <p>Preparing financial statements that are not in accordance with IFRS will result in a contravention of s29 of the Companies Act as the AFS will be false and misleading.</p> <ul style="list-style-type: none"> This is a threat to his professional competence and due care. The threat is significant as the financial statements are misstated. The accountant should process all the correct accounting journals in preparation of the year-end financial statements (safeguard). 	<p>1</p> <p>1</p> <p>1</p> <p>½</p> <p>1</p> <p>1</p>
The auditor – Lungile		
5	<p>Lungile has been the audit partner for the last seven years. According to s92 of the Companies Act, the designated auditor must be rotated after serving as auditor for five consecutive years.</p> <ul style="list-style-type: none"> This is a threat to Lungile's independence in terms of s290 of the Code of Professional Conduct because of her close relationship with the financial director, and long association with the client. It is a familiarity threat that affects Lungile's objectivity as the audit partner. This is significant as Lungile's long association with the client and relationship may cause her to overlook certain issues. The auditor partner should be rotated (safeguard). 	<p>1</p> <p>½</p> <p>½</p> <p>1</p> <p>1</p>
6	<p>Lungile and her family and the family of the Financial Director go on holiday together which indicates a relationship outside of the business environment:</p> <ul style="list-style-type: none"> This is a threat to Lungile's independence in terms of s290 of the Code of Professional Conduct; This is a familiarity threat that affects Lungile's objectivity as the audit partner as she might compromise her professional judgement because of bias. This is significant as Cindy Smith is the financial director and thus involved in the preparation of the financial statements. Lungile should not perform the audit and she should be removed from the audit (safeguard). 	<p>1</p> <p>½</p> <p>½</p> <p>1</p> <p>1</p>
7	<p>There is a request to drastically reduce audit fees:</p> <ul style="list-style-type: none"> This may be seen as an intimidation threat to Independence and as a result affect Lungile's objectivity. Professional competence and due care is also threatened if the fee quoted is so low that it may be difficult to perform the engagement in accordance with applicable technical and professional standards for that price. 	<p>1</p> <p>½</p> <p>½</p> <p>½</p>

	<ul style="list-style-type: none"> The threat is significant as it impacts what work is necessary to obtain adequate audit evidence during the course of the audit. The request to drastically reduce the audit fee must be turned down (safeguard). 	1 1
8	<p>TellMeMore is a significant client of SGT.</p> <ul style="list-style-type: none"> There is a self-interest threat to independence in terms of s290.215 of the Code of Professional Conduct. The threat is significant as the fees from the audit client represent a large proportion of the total fees of SGT. A safeguard is to reduce the reliance of SGT on the fees of TellMeMore. 	½ ½ 1 1
9	<p>The auditors provided Henry with a schedule of journal entries to be processed to the ledger.</p> <ul style="list-style-type: none"> It could be seen that the auditors are contributing to the preparation of the financial statements – particularly should Harry simply process these journal entries without further evaluation thereof. This will give rise to threats to independence and professional behaviour (due to the potential non-compliance with section 90(2) of the Companies Act). 	1 ½
10	The audit partner should have ensured a quality audit in terms of ISA 220 and ISQC1. In this way, many of the threats and issues would have been identified.	1
	Available	35.5
	Maximum	10
	Total for part (e)	10
	TOTAL FOR PART II	26
	TOTAL FOR THE QUESTION	