

Part (e) Discuss the nature, timing and extent of the further audit procedures that the audit team should follow to obtain sufficient appropriate audit evidence about the appropriateness of the use of the going concern basis of accounting in the preparation of Simunye's 2020 annual financial statements.	Marks
Nature of testing to be performed	
Based on the information provided there is no expectation that there are any controls that are operating effectively over the process of execution of a going concern assessment or the control environment. <i>(This is substantiated by uncertainties with regard to the assumptions used, accuracy and completeness of the SMS going concern forecast – that ultimately needs to be consolidated into the group's financial information later on)</i>	1
For one of the subsidiaries, SMS, some control over going concern assessment exist, i.e. the FM prepares the forecasts and the directors review the forecasts to assess whether there are sufficient resources to continue operations in the near future. <i>(it is unclear whether this is done for all subsidiaries and the parent)</i> <u>However</u> , even though the person performing the assessment might be competent, the inherent risk associated with the forecast, casts uncertainty on appropriateness of the assessment and it may still contain various misstatements.	1
<p>The following risk indicators also substantiate the risk that the going concern basis of accounting might not be used appropriately in the preparation of the 2020 financial statements, and suggest the risk is significantly increased:</p> <ul style="list-style-type: none"> • Decreases in the profitability over the past two years (as well as the 12-month forecast), including a decline in profits of subsidiaries (i.e. SMS). • Prolonged strikes reducing the production capacity of the gold mining operations significantly. • Lawsuits facing the company (occupational health pay-outs). • Drop in commodity prices that resulted in a decline in the share price. • Simunye has failed to generate any cash internally and could only generate cash through external funding and selling investments and excessively relies on short-term credit facilities. <p>The following factor mitigate the going concern risk of uncertainty of the company's ability to continue as a going concern:</p> <ul style="list-style-type: none"> • Simunye is still compliant with debt covenants of a net debt to EBITDA ratio of 3.5 (i.e. 2.5:1 as at year-end) or less and an interest coverage ratio of at least 2 (i.e. 4.9 as at year-end) 	Max 3
The doubt of the company's ability to continue as a going concern should be addressed as a significant risk (high risk acceptable) in the selection of an <u>audit approach</u> for the following reasons:	1
<ul style="list-style-type: none"> • ISA 315 state that a significant risk arises when there is a degree of subjectivity in the measurement of financial information related to the risk, especially when it involves a wide range of uncertainty, which is the case with a going concern assessment. 	1
<ul style="list-style-type: none"> • A fraud risk factor exists in the event of pressures relating to financial stability, profitability and operating conditions; hence management may be under significant pressure for Simunye to appear to be a going concern. 	1
The audit evidence obtained through the audit procedures should allow the auditor to identify/make an assessment of whether material uncertainties exist .	1
A substantive approach will therefore be followed where <u>substantive tests of details</u> and <u>analytical procedures</u> will be performed, with no test of controls.	1
Since going concern considerations are considered to be <i>material</i> in nature to users of financial statements, substantive tests need to be executed regardless of the level of risk of material misstatement.	1

<ul style="list-style-type: none"> Substantive test of details would be appropriate to assess the <i>evaluation of management's assessment</i> of Simunye's ability to continue as a going concern, and Substantive analytical procedures on the <i>profitability, liquidity, gearing and solvency ratios</i>. 	1 1
Attention should be focussed on the going concern assessment performed by management :	
<ul style="list-style-type: none"> Specific consideration has to be given to the period over which management performed the assessment (is it in line with the conceptual framework – at least 12 months per ISA). 	1
<ul style="list-style-type: none"> Enquiries should be made of management as to whether any consideration was given to events that will occur post the forecast period. 	1
<ul style="list-style-type: none"> Consideration should be given to the mitigation strategies to be implemented by management – will the outcome of the strategies improve the operations sufficiently to continue as a going concern (effectiveness), and 	1
<ul style="list-style-type: none"> Is management capable of implementing the strategies (feasibility). 	1
<ul style="list-style-type: none"> Consider the adequacy of the company's borrowing facilities and the state of the company's relationship with financial institutions (can the credit facility be refinanced again in the future if necessary). 	1
<ul style="list-style-type: none"> Specific attention should be given to the covenant renegotiations – events after year end have to be considered to determine whether management was/is able to negotiate the 'covenant holiday'. 	1
<ul style="list-style-type: none"> The forecasts provided by management should be <u>tested in detail</u>: <ul style="list-style-type: none"> As far as possible the data used in the assessment should be agreed to underlying sources (current year actuals agreed the AFS, royalties to relevant legislation). Assumptions should be tested through for example investigation of past growth trends, industry forecasts and production capacity, to determine if the growth rate is reasonable. Reperform the calculations of the forecasts and solvency and liquidity ratios. 	1 1 1
Timing of testing	
The timing of the testing on the going concern assumptions should occur during the final audit at year end .	1
Furthermore, events after year end should be considered as evidence to support the going concern assumption.	1
Extent of testing	
The extent of testing is directly linked to the results of the risk assessment and will directly vary in correlation with the uncertainty of the company's ability to continue as a going concern.	1
Due to the significant risk identified, increased substantive testing should be performed to obtain sufficient appropriate evidence on the appropriateness of assumptions and mitigation strategies implemented by management.	1
The audit team should consider whether materiality levels should be decreased in testing the going concern assessment, due to the significant risk.	1
Material uncertainty assessment	
If material uncertainty exists relating to going concern, the adequacy of the disclosures of the events and circumstances in the financial statements should be tested in detail.	1

Other procedures (<i>not a direct response to risk assessment, rather ISA compliance</i>)	
Written representations should be obtained from management regarding the appropriate use of the going concern assumption.	1
Available	29
Maximum	10
Total for part (e)	10

Part (f) Based on your review of workpapers J-102 and L-106 criticise the appropriateness and completeness of the proposed audit procedures in L-106.	Marks
Maintenance of mine workers master file	
<ul style="list-style-type: none"> • The direction of testing/source from which sample was selected for point number 1 ('For a sample of 15 MAF's...') is questionable as it would be preferable to select a sample for testing from the masterfile and agree to the MAF and supporting documentation. 1 • There is no explanation as to why 15 MAFs have been chosen / how was the sample for the test calculated. 1 • Also, no mention is made as to how the sample was selected (sampling strategy), for example random, haphazard, representative sample. 1 • Test of control number 3 ('Using Data CAAT's extract a list of duplicate employees names / ID numbers of mine workers at Simunye') is not a test of control but rather a substantive procedure and should not have been included on the working paper. 1 	
Missing procedures include:	
<ul style="list-style-type: none"> • Using CAAT's, identify all amendments in the employee masterfile for the 2020 financial year, select a sample of changes and: <ul style="list-style-type: none"> ○ Agree the amendments per the MAFs to the employee master file to ensure that it has been correctly updated on the system. 1 • Inspect the access profiles of staff to confirm that only authorised members of Simunye's HR department have access to the master file and to the access logs to confirm that access has been gained only by authorised staff. 1 • Inspect the masterfile amendments logs for any discrepancies and the signature of the Financial Director to confirm that these have been appropriately reviewed. 1 • Enquire from the Financial Director as to the procedure(s) he/she executes when any discrepancies on the Masterfile amendments log had been identified (missing MAF numbers). 1 • Select a sample of MAFs and trace these to the masterfile amendments log in order to confirm that all MAFs have been accounted for/entered. 1 	
Mine worker identification and time-keeping of hours worked	
<ul style="list-style-type: none"> • For test 1 ('observe that upon exit they are required to walk through an x-ray scanning machine'), this test does not relate to the payroll / wages cycle (rather to inventory) and should not be tested / included in this working paper. 1 • For test 2 (observing Simunye's security staff at the mine): <ul style="list-style-type: none"> ○ First, the fact that they know that they are being observed (i.e. it was not done on an unannounced basis) may affect how they perform the control during the observation process and thus this test will yield evidence of limited reliability. 1 ○ Secondly, it only provides evidence limited to the points in time at which the observation took place and thus does not provide sufficient evidence about the operating effectiveness of the control for the entire 2020 financial year. 1 	

Missing procedures include:	
<ul style="list-style-type: none"> • Attempt to gain access to a mine shaft area with an unauthorised (auditor) thumb print and confirm that access via the turnstile is denied. 	1
<ul style="list-style-type: none"> • Enquire from security guards what procedures they follow when there is an attempt of unauthorised entry (confirm that the security guards cannot let these individuals in with their own biometrics) or suspicious activity. 	1
<ul style="list-style-type: none"> • In order to verify that the correct thumb print is stored for the correct employee on the MyPay system - for a sample of employees, capture thumb prints (if practical) and verify them against that recorded per employee masterfile records. 	1
<ul style="list-style-type: none"> • Obtain Simunye’s permission to use test data and – <ul style="list-style-type: none"> ○ using <u>system CAATs</u>, log test hours of valid employees on Simunye’s system and verify by inspection that the payroll expenses and related deductions sent to MyPay include these amounts; and ○ using <u>system CAATs</u>, log test hours of employees that are not part of Simunye’s employee listing (i.e. fictitious ‘employees’) and observe whether Simunye’s system detects the fictitious transaction. 	1
<ul style="list-style-type: none"> • For a sample of employees, reperform the casting of the hours (normal and overtime) worked by obtaining the times logged by the employee on the ‘Exit and entry’ log and to confirm that it was correctly calculated by the MyPay system. 	1
Review of mine workers attendance and approval of hours logged	
<ul style="list-style-type: none"> • For test 3 (iii) – the test only describes having inspected the signature on the ‘Total hours worked’ schedule, which is not sufficient to test this control. 	1
<ul style="list-style-type: none"> • Evidence of the actual control implemented needs to be obtained, such as reasons noted / follow up procedures performed by the shaft manager for the overtime hours not pre-approved. 	1
<ul style="list-style-type: none"> • For test 1 (‘enquiring from the shaft manager the process that he follows...’): <ul style="list-style-type: none"> ○ This is rather a risk assessment procedure aimed at clarifying the auditor’s understanding of the process, since no follow-up / test was performed based on information obtained from the enquiry (not sufficient to test control). ○ The reliability of audit evidence gathered from enquiry as an audit procedure is low, as the mine managers may respond according to what they know they should be doing, but not as they actually do. 	1
<ul style="list-style-type: none"> • For test 2 and 3 – again no mention is made of how the sample will be selected (see points under masterfile). 	1
Missing procedures include:	
<ul style="list-style-type: none"> • Agree employees listed on the total hours worked schedule to the list of authorised employees to ensure that only authorised employees are remunerated. 	1
<ul style="list-style-type: none"> • For overtime worked, inspect the total hours worked schedule for the signature of the relevant shaft manager as evidence that the overtime hours have been pre-authorised. 	1
<ul style="list-style-type: none"> • Enquire of the shaft manager what process is followed to review the schedule and confirm the accuracy thereof by observation / inspection. 	1
General criticisms	
<ul style="list-style-type: none"> • The formulated tests of controls are not complete – there are additional controls listed in the system description not included by the trainee. 	1
	Available
	28
	Maximum
	15
	<i>Communication skills – appropriate style</i>
	1
	Total for part (f)
	16

<p>Part (g) Provide the substantive audit procedures that should be performed to obtain sufficient and appropriate evidence regarding the occupational health obligation in the 2020 consolidated annual financial statements of Simunye, with reference to workpaper D-103</p> <p>Do not include group audit procedures in terms of ISA 600 <i>Using the Work of Another Auditor (Including the Work of Component Auditors)</i>.</p>	<p>Marks</p>
<p>Obtain authorisation/permission from management in order to communicate with the actuary and Simunye’s external legal representatives.</p>	<p>1</p>
<p>Initial recognition of a provision (reliability and probability)</p>	
<ul style="list-style-type: none"> • Evaluate the company’s procedures to identify provisions and inspect the supporting documentation that management provides in respect of the obligation to confirm that the amount recognised meets the definition of a provision is in accordance with IAS 37. 	<p>1</p>
<ul style="list-style-type: none"> • Inspect the minutes of board meetings where the recognition of a provision was considered and approved by the board. 	<p>1</p>
<ul style="list-style-type: none"> • Inspect legal correspondence from Simunye’s legal representatives to confirm that it is now probable that the obligation will result in an outflow of economic benefits/expected outcome of the lawsuit (obligating event exists, and company cannot “walk away” from responsibility). 	<p>1</p>
<p>Actuary/Legal representative – use of management expert</p>	
<ul style="list-style-type: none"> • In order to determine <u>whether reliance can be placed</u> on the work of the actuary – 	<p>1</p>
<ul style="list-style-type: none"> ○ evaluate the competence and capabilities of the actuary through inspection of his/her qualifications, CV, etc.; 	<p>1</p>
<ul style="list-style-type: none"> ○ evaluate the independence of the actuary through inquiries with management and the actuary as to any instances that could cause breaches in independence; 	<p>1</p>
<ul style="list-style-type: none"> ○ Inspect the contract between management and the expert in order to determine whether the scope of their engagement is in line with the audit evidence to be obtained to provide appropriate audit evidence. 	<p>1</p>
<p>Method, Assumptions, Data</p>	
<p>Enquire from the actuary/management how the provision was calculated, including the assumptions made and methods used, and corroborate through agreeing assumptions to the calculation schedule.</p>	<p>1</p>
<p>Obtain an understanding of the work performed by the actuary through inspection of the report for <u>assumptions made, methodology used, data collected</u>, etc., as well as discussions with the actuary on the process followed to make estimates and determine the appropriateness of the work performed.</p>	<p>1</p>
<p>Procedures to verify assumptions and data</p>	
<ul style="list-style-type: none"> • Inspect legal correspondences from the legal team representing the mine workers/auditors own legal expert, to compare their estimates to that used by management in order to verify the number of employees and value of benefits. 	<p>1</p>
<ul style="list-style-type: none"> • Consider the outcomes of similar past class action lawsuits/cases in order to compare the settlement values to the provision’s estimate. 	<p>1</p>
<ul style="list-style-type: none"> • Inspect legal correspondence from Simunye’s external legal representatives / enquire from them or obtain a written confirmation as to the expected outcome of the law suit, expected values of the benefits awarded to the plaintiffs and if available the possible timing of the settlement. 	<p>1</p>

<ul style="list-style-type: none"> Inspect the calculation for the risk-free rate used and agree the rate to the current government bond yield for a similar period to the provision as obtained from the treasury website. Enquire from the actuary why the use of a risk-free rate will be applicable to this type of provision and why no risk adjustments are deemed necessary. Request a sensitivity analysis from management and evaluate the effect of a change in key variables/assumptions on the calculation of the obligation. Enquire from management as to the factors that lead to a change in provision estimate at year end and corroborate facts with the actuary's report. Consider/evaluate any events after year end that may affect the assumptions made and the data used in estimating the provision amount. 	1 1 1 1 1
Provision valuation (estimate)	
<ul style="list-style-type: none"> Using all the data and assumptions verified, calculate the auditors own estimate of the obligation independently to determine a point estimate for comparison to actuary's calculation. Reperform the calculation of the interest, using the original inputs on the day of recognition of the occupational healthcare obligation. (For disclosure purposes). Reperform the calculation of the change in estimate, to confirm that the amount is correct. (For disclosure purposes). Include any differences in the schedule of unadjusted audit differences and discuss these with management (as this is a <i>Judgemental misstatement</i>) and consider whether there is a need to adjust the AFS. 	1 1 1 1
Presentation and disclosure	
<ul style="list-style-type: none"> Inspect the draft disclosures in Simunye's 2020 financial statements as provided by management to determine if it is in line with the requirements of IAS 37. Inspect Simunye's 2020 financial statements to confirm that the provision has been accounted as separate line item (if material) on the Statement of Financial Position. Inspect Simunye's 2020 financial statements to confirm that the change in estimate, and related information, had been appropriately disclosed in accordance with IAS 8. 	1 1 1
Other procedures	
<ul style="list-style-type: none"> Inspect all assumptions made by management in the provision calculation for any indication of management bias (for example, assumptions all leading to a decrease in the provision to be raised – completeness risk). 	1
	Available 25
	Maximum 10
	<i>Communication skills – appropriate style</i> 1
	Total for part (g) 11
TOTAL FOR PART II	37