

Part (a) Describe the tests of controls that CCW should perform to evaluate the operating effectiveness of the controls over the system for revenue for FY2020 with regard to the audit of Amanzi referred to in item 1.		Marks
1	Obtain a download of all usernames/email address/cellphone numbers and by using CAATs, input an existing username from the downloaded list and verify that the system blocks the username as it is a duplicate.	1
2	By using CAATs attempt to override the firewall for the UTA platform/test the general controls implemented over the UTA system	1
3	Use test data to do the following:	
3.1	Obtain client's permission to register a profile and complete all the required fields as follows:	1
3.1.1	Use the unique username and password to verify that a one-time password is sent to the provided cellular number;	1
3.1.2	Perform edit checks when completing some of the fields and verify that: e.g.: the system will block any alphabetic characters you enter as the cell phone number. e.g.: the system will not allow you to continue if you complete the field size of the cell phone using more or less than exactly 10 digits. e.g.: the system will not allow any invalid email addresses, VAT numbers, Company reg nr etc to be entered e.g.: the system will only allow the order to be placed after you entered all the required fields and not while any field is still incomplete.	2 (max 2)
3.1.3	Take note of the available credit facility and attempt to place an order where the total value exceeds the credit facility to verify that an email is sent to the listed email addresses requesting a payment.	1
3.1.4	Obtain a download of all orders that have changed from pending to complete on the system and can be traced to a payment that was received for that specific order and confirm by inspection that only completed (paid for orders) are on the list.	1
3.1.5	Attempt to place an order which does not breach the credit facility and inspect that Rodwin signed off on the filled order with his password.	1
3.1.6	Download an exception report of all delivery notes that were not matched to an order form (undelivered orders) and inspect for instances where it was not reviewed by Rodwin.	1
3.1.6.1	Investigate such instances if noted and follow up by enquiry with management or inspection of supporting documentation.	1
3.1.7	Confirm by inspection that unit selling price for test data has pulled correctly from the Masterfile by agreeing the price per test data to the price per Masterfile.	1
3.1.7.1	Extract a report of any changes to the selling price Masterfile and confirm by inspection that all changes is supported by an approved Masterfile Amendment Form.	1
3.1.8	Download an exception report for all invoices which are not matched to signed delivery notes and inspect for instances where it was not reviewed by Rodwin.	1

3.1.8.1	Investigate such instances if noted and follow up by enquiry with management or inspection of supporting documentation.	1
3.1.9	Obtain a download of the sequential numbering of all the delivery notes/orders to confirm they are sequentially numbered and ensure that there are no missing delivery notes.	1
<b>Available</b>		<b>16</b>
<b>Maximum</b>		<b>12</b>
<i>Communication skills – appropriate style</i>		1
<b>Total for part (a)</b>		<b>13</b>

<b>Part (b) Discuss any ethical concerns you may have regarding item 2.</b>	<b>Marks</b>
1. It is of concern that CCW is wanting to expand its client base 'aggressively' and may not perform the necessary client acceptance procedures adequately.	1
2. As per ISA 220, par. 12 and A8 and ISQC 1 par. 26, before an audit firm can accept or continue a client relationship it has to consider the following:	
2.1. Whether the engagement team is competent to perform the audit engagement and has the necessary capabilities, including the time and resources.	1
3. CCW currently does not have any JSE listed entities as audit clients and is not familiar with the JSE listing requirements.	1
4. JSE listed companies may be complex and large, in which case CCW might not have sufficient staff with the right skills to audit companies of this nature and size. Staff may have to work on numerous clients at the same time and this will affect the audit quality.	1
5. While five of the audit partners have had JSE training, none of the audit staff have which is a <u>self-interest threat</u> to <u>professional competence and due care</u> .	½ ½
6. The special bonus initiated raises ethical concerns, as the employees may focus more on acquiring clients and not on their audit work which could also lead to a self-interest threat to their objectivity and independence (s411.3 A1)	1 ½ ½
7. The partners have encouraged staff members to use their personal and family networks to bring in additional audit work which can be seen as a <u>self-interest/familiarity threat</u> to the auditors' <u>objectivity and independence</u> (s521)	1 ½ ½
8. Regarding marketing to professional services by means of cold calling listed companies, is a concern as such actions by trainees and chartered accountants could be a <u>possible self-interest threat</u> to <u>professional behaviour</u> and bring the profession into disrepute (R115.2).	1 ½ ½
9. It is a concern that CCW is offering to cut the audit fee by 40%, although charging a lower fee is not in itself unethical (s 330.3 A2).	1
10. However, if a lower fee is charged it could be seen as a <u>self-interest threat</u> to <u>professional competence and due care</u> if the 40% discount will be so low that it will be difficult to perform the audit in accordance with applicable technical and professional standards, and this will become an ethical concern.	½ ½ 1
11. The partners' comments about more face-to-face time with clients so that it would justify chargeable time is of concern. As auditors should always act with integrity and only charge the hours that are allowed to bill to their clients and could be seen as a self-interest threat to integrity.	1 ½ ½

12. While the audit team includes many trainee accountants, they are required to adhere to the SAICA CPC as part of their training contract requirements. The firm is also required to achieve the 'ethical requirements' objective of ISQC1.	1
13. The intention is expressed to recoup the 'discount' in future years through the provision of non-assurance services which could lead to a <u>self-review</u> threats to <u>objectivity and independence</u> (R600.4) in the future.	1 ½ ½
14. Charging a lower audit fee in the current year, with the intention from the partners to 'recoup' (increase) the audit fee in the future, is evident that the audit partners are not being transparent and honest about their intent to the new clients which could lead to a <u>self-interest</u> threat to their <u>integrity</u> .	1  ½ ½
15. All the above actions of the partners are encouraging unethical behaviour and thus not displaying/creating an overall ethical environment /ethical leadership for trainees within the firm/ improper conduct in terms of SAICA/IRBA rules.	1
<b>Available</b>	<b>22</b>
<b>Maximum</b>	<b>8</b>
<i>Communication skills – logical argument</i>	1
<b>Total for part (b)</b>	<b>9</b>

<b>Part (c) With regard to the proposed merger with Eyona (item 3) – (i) critically discuss whether the proposed merger is a beneficial strategy to CCW</b>	<b>Marks</b>
1. Given the increase in billable hours and large expansion, will CCW still have sufficient time available to 'take time to know their clients personally'?	1
2. Increasing the managers' salaries will also assist CCW to retain its reputation of being an employer of choice.	1
3. In addition to being able to use Eyona's actuarial services for the auditing requirements of their assurance clients, merging with Eyona will mean that CCW will be able to better meet their clients' needs (improved expertise). There will be an increased exposure to client base resulting in additional services and revenue.	1
4. This will also enable them to better compete with the Big 4 audit firms who are likely to offer these services in-house. / The merger will give the new company a competitive edge especially in the small to medium size market.	1
5. Providing the services from within the new merged firm will enable CCW to have greater control over the quality of the actuarial audit work performed than would be the case if these services are outsourced.	1
6. CCW would have to consider whether it will have the resources (time and skill) to effectively manage the increased administrative burden due to the merger (such as monitoring quality, profitability, bookings, etc.)	1
7. Having the in-house function of actuarial services would eliminate the cost incurred for outsourced actuarial services.	1
8. In addition to the quantitative assessment which is required, other qualitative factors should be considered, any other valid considerations such as <ul style="list-style-type: none"> <li>• Whether the corporate cultures of the two firms will smoothly combine as one.</li> <li>• Do the Firms agree on a unified strategy?</li> <li>• Do the Firms agree on how people will be jointly managed?</li> </ul>	Max 2

<ul style="list-style-type: none"> <li>The impact of managers expected to work more overtime with no pay (employee morale)</li> <li>Merging will provide a good avenue for a stable revenue income stream (especially if audit fees are currently volatile).</li> <li>What are the possible consequences of terminating the outsourced actuarial services both on the service provider and on client relations?</li> <li>There may be additional cross-selling opportunities between the two firms that are not currently immediately apparent.</li> </ul>	
9. The legal structure of the firm post-merger would have to be carefully considered, so as to avoid potential non-compliance with the Auditing Professions Act (APA).	1
10. Conclusion: Based on the above it could be concluded that the proposed merger could be beneficial to CCW.	1
<b>Available</b>	<b>11</b>
<b>Maximum</b>	<b>5</b>
<b>Total for part (c)(i)</b>	<b>5</b>

<b>Part (c) With regard to the proposed merger with Eyona (item 3) –</b>		<b>Marks</b>
<b>(ii) calculate the impact of the proposed merger on the expected profitability per existing CCW partner for the year ending 31 December 2021.</b>		
<b>Incremental approach (alternative 1)</b>	<b>R'000</b>	
Combined profits R(82 765 <sup>^</sup> + 22 951 <sup>^</sup> )	105 716	1
Increase in revenue: non-audit services to Eyona's clients (10 000 <sup>^</sup> hours x R1 500 <sup>^</sup> )	15 000	1
Over time premium (calc 1) Calc 1: Trainee hours required (60% <sup>^</sup> x 10 000 <sup>^</sup> hours) 6 000 hrs Overtime hours required (6 000 – 2500 <sup>^</sup> ) 3 500 hrs Overtime cost (3 500 <sup>^</sup> hrs x R150 <sup>^</sup> /hr) <i>Candidates may question whether any overtime would be required for the trainees, as the Eyona trainees will be able to assist with the auditing, as such not include this cost – 1 mark awarded only if reasoned.</i>	(525)	1 ½ 1
Harmonisation of managers' salaries (105 <sup>^</sup> x R50 000 <sup>^</sup> )	(5 250)	1
Savings on outsourced actuarial services	10 000	½
Savings in Eyona's rental	1 200	½
Training costs	(100)	½
Once off merger costs <i>Candidates may argue that the R3m cost is a once-off cost which ought to not be included – ½ awarded only if reasoned</i>	(3 000)	½
<b>Revised combined profit</b>	123 041	
New profit per partner (Rxxx / 39)	3 155	1
Old profit per partner (R82 765 / 35)	2 365	1
<b>Incremental profit</b> Therefore, entering into the merger increases the profit per CCW partner.	790	½
<b>Total Approach (alternative 2)</b>		

Combined revenue (R(436 800 + 40 755)^)	477 555	½
Increase in revenue: non-audit services to Eyona's clients (10 000 hours^ x 1 500^)	15 000	1
Salaries: R(154 250 + 5 750)^	(160 000)	½
Overtime Trainee hours required (60% x 10 000 hours)^ 6 000 hrs		½
Overtime hours required (6 000 – 2500^)	3 500 hrs	½
Overtime cost (3 500 hrs x R150/hr)^	(525)	½
<i>Candidates may question whether any overtime would be required for the trainees, as the Eyona trainees will be able to assist with the auditing, as such not include this cost – 1 mark awarded only if reasoned.</i>		
Harmonisation of managers' salaries (105^x R50 000^)	(5 250)	1
Actuarial services	-	1
Rental	(58 500)	½
Other overheads (131 285 + 10 854) ^	(142 139)	½
Training costs	(100)	½
Once off merger costs	(3 000)	½
<i>Candidates may argue that the R3m cost is a once-off cost which ought to not be included – ½ awarded only if reasoned</i>		
<b>Revised combined profit</b>	<b>123 041</b>	
New profit per partner (Rxxx / 39)	3 155	1
Old profit per partner (R82 765 / 35)	2 365	1
<b>Incremental profit</b>	790	½
Therefore, entering into the merger increases the profit per CCW partner.		
	<b>Available</b>	<b>10</b>
	<b>Maximum</b>	<b>10</b>
	<b>Total for part (c)(ii)</b>	<b>10</b>

Part (c) With regard to the proposed merger with Eyona (item 3) – (iii) discuss any ethical concerns that may arise as a result of the proposed merger.		Marks
1	It is a concern that they are considering having non-audit trainees and actuaries perform audit work, this may result in poor audit quality.	1
2	The actuarial staff would have not had the same knowledge and experience as the audit team and do not need to abide by the SAICA CPC (s600). They may not have the necessary skills required this will result in a <u>self-interest</u> threat to <u>professional competence and due care</u> .	1 ½ ½
2.1	While the new actuarial staff have to abide by the requirements in terms of the new firm's quality control system, they may not be familiar with the reason(s) why they need to abide by such requirements.	1
3	It is a concern that CCWs want to share the profits of the firm with the non-RAs, because they should know that this is not permissible. If they share	1

	profits with non-RAs this is a contravention of Section 41(6) of the Auditing Professions Act (APA) and demonstrates they are not acting in line with the appropriate professional behaviour.	
4	It is a concern that all existing partners of CCW and Eyona will automatically become partners of the new merged firm. This is in contravention of section 38 of APA as it states that all partners of a firm have to be RAs.	1
5	It is also a concern that the audit partner's daughter is married to a partner of Eyona, which may mean that the audit partner may not act in the best interests of the firm as he has an additional interest in the proposed merger. This could also result in a <u>self-interest threat</u> and familiarity threat to the independence of the partner.	1 ½ ½ ½
6	The Eyona billing practices are also not above board and could lead to reputational damage for the firm as a whole if the two were to merge.	1
7	Other valid legislations (must include application of scenario i.e. Bylaw 34/ Rules regarding improper conduct).	1
	<b>Available</b>	<b>10½</b>
	<b>Maximum</b>	<b>7</b>
	<b>Total for part (c)(iii)</b>	<b>7</b>
	<i>Communication skills – logical argument</i>	<i>1</i>
	<b>Total for part (c)</b>	<b>23</b>
	<b>TOTAL FOR THE QUESTION</b>	<b>45</b>