

Part (a) With reference to workpaper WP102-1 (excluding attachment 1) –				Marks
(i) describe the risks of material misstatement at an overall financial statement level that TCI should consider during the planning of its audit for FY2019; and		(ii) for each risk identified, state your proposed audit response to address the risk. Detailed audit procedures are not required.		
Present your answer in a tabular format				
(i) Risk		(ii) Audit response		
1	Mofaso is part of a franchise agreement required to meet certain franchising targets and thus there may be incentive to manipulate financials in order to meet franchising targets which increases the risk of fraud.	1	<ul style="list-style-type: none"> Assign more senior staff to the audit. Provide more supervision over staff responsible for the audit. Emphasise to the engagement team to increase the level of professional scepticism on the audit. 	1 1
2	The risk that the going concern basis of accounting has been inappropriately applied in the preparation of the financial statements is increased due to fraud/error by the following: <ul style="list-style-type: none"> If the company does not comply with the terms of the franchise agreement, they may be required to close a significant part of the business. Declining profitability of the entity could affect the going concern assumption. 	1 1	<ul style="list-style-type: none"> Incorporate elements of unpredictability in the selection of audit procedures. Decrease/lower materiality. Place less reliance on controls and focus more on substantive procedures on the audit. Focus more on year-end testing for account balances/close to year-end. 	1 1 1 1
3	The control environment is weak which could result in possible errors and fraudulent financial reporting due to the following: <ul style="list-style-type: none"> The financial manager's IFRS knowledge is questionable, which will increase the risk of error that transactions are not accounted for in accordance with IFRSs. There are disputes / disagreements between the directors, which increases the risk of error as a result of shareholders not being focused on the business activities. Accusations of financial mismanagement have been made and although not proven, 	1 1 1	<ul style="list-style-type: none"> Perform more tests of detail and less analytical procedures. Increase the extent of substantive procedures performed (increase sample sizes). Place less reliance during substantive procedures on management representations (confirmations) and focus more on representations 	1 1 1

	<p>these could increase the risk of material misstatements.</p> <ul style="list-style-type: none"> • Various internal control deficiencies were noted in the prior year audit. • Limited segregation of duties specifically in connection with work performed by Lana. • A variety of the accounting processing are performed on Excel (i.e. manual). 	1	<p>and confirmations from third parties.</p> <ul style="list-style-type: none"> • Evaluate whether the selection and application of accounting policies may be indicative of fraudulent financial reporting. 	1
4	<p>The company's accounting system is not integrated (basic, off the shelf), which increases the risk that errors in, or manipulation of, financial records.</p>	1	<ul style="list-style-type: none"> • Perform a detailed review of the terms and conditions of the franchise agreement and perform audit procedures to ensure the company is not in breach. 	1
5	<p>A lack of management integrity /weak corporate governance structures is evident which could lead to fraudulent financial reporting due to the following:</p> <ul style="list-style-type: none"> • There are disputes / disagreements between the shareholders (i.e. directors), which increases the risk due to an incentive to engage in fraudulent financial reporting to achieve personal objectives. • The wife of one of the shareholders (i.e. directors) is the company's financial manager which increases the risk of material misstatement as a result of her ability to effect material misstatements to suit her husband's objectives. • The business is owner managed which increases the risk due to management (i.e. owners) conducting fraudulent financial reporting to achieve personal objectives. • The current management structure is not aligned with best governance practices as all the directors are shareholders which result in reduced oversight of their activities and provide opportunities for fraudulent financial reporting and override 	1	<ul style="list-style-type: none"> • Increase professional scepticism with the review of the cash flow / profit forecasts prepared by management in evaluating the going concern assumption. 	1

	of controls which increases the risk.			
6	There is evidence that the company does not always comply with laws and regulations such as Companies Act (e.g. s76) / Taxation laws / health and safety regulations given management’s potential willingness to rationalise inappropriate conduct which increases the risk of material misstatement at the financial statement level due to fraud/error.	1		
7	As the company operates a second-hand car dealership , they could be seen as a “reporting entity” / suspicious trade in terms of the Guide to money laundering and this will increase the risk at the overall level.	1		
	Available	16	Available	13
	Maximum	7	Maximum	7
<i>Communication skills – appropriate style</i>				1
Total for part (a)				15

Part (b) Discuss the risks of material misstatement related to the inventory account balance in the 2019 financial statements of Mofasa, with reference to WP 102-1 (excluding attachment).			Marks
Fuel, oil and spare parts			
1	The company’s inventory is prone to theft (petrol, diesel, oil, and spare parts) which increases the risk that inventory does not exist (existence).		1
2	The method used for the daily stocktakes of fuel inventories could result in the readings (i.e. quantities) not being accurate (e.g. the use of dipsticks) (accuracy, valuation and allocation).		1
3	Petrol and diesel inventory balances may have an incorrect value due to not including, evaporation, spillage and other losses resulting from the handling of the inventory (existence, accuracy, valuation and allocation).		1
4	There is a risk that the fuel is not accounted for at lower of cost or net realisable value due to the fact that the selling prices of fuel are regulated and there may be write-offs required if the price is significantly reduced to below cost (accuracy, valuation and allocation).		1
5	The systems used to record fuel sales and the accounting software are not integrated which may result in errors in recording sales and inventory transactions in the general ledger (existence, accuracy, valuation and allocation).		1
6	The records of fuel inventory are kept on systems maintained by Pride Oil , which increases the risk, as reliance must be placed on a system maintained by a third party (existence, completeness, accuracy, valuation and allocation).		1

Second-hand cars		
7	The second-hand car inventory records are maintained on an Excel spreadsheet which increases the risk of errors and manipulation of records in the second-hand car dealership's inventory balance (accuracy, valuation and allocation, completeness).	1
8	The cost of second-hand car inventory includes unrealised profit included in a part of the cost of the vehicle which might not be eliminated or correctly accounted for as part of the cost of the vehicle inventory balance (accuracy, valuation and allocation).	1
9	The servicing costs might incorrectly not be included in the cost of inventory and/or could have been incorrectly expensed (classification, accuracy, valuation and allocation).	1
10	There is a risk that the costs to fuel up the vehicles and the financing costs incurred to fund the vehicle stock is incorrectly accounted for (classification, accuracy, valuation and allocation).	1
11	There is a risk that vehicle inventory is not correctly accounted for at the lower of cost or net realisable value due to the fact that the valuation of second-hand cars is dependent on many factors such as condition of the vehicle, new models released, economic conditions, slow-moving etc., (accuracy, valuation and allocation).	1
12	Vehicle sales and registrations around year end may be manipulated or incorrectly accounted for and result in inaccurate inventory balances due to vehicles not being registered in the name of Mofasa at year end (existence, completeness, rights and obligations).	1
All classes of inventory		
14	There is a risk that the inventory not being properly presented and disclosed in the financial statements in compliance with IFRS as a result of a lack of IFRS knowledge evident from the individual responsible for the preparation of the financial statements.	1
Available		13
Maximum		6
Total for part (b)		6

Part (c) Discuss the threats, and identify appropriate actions TCI should consider to mitigate the threats, to ensure its partners and staff comply with the SAICA Code of Professional Conduct, with reference to workpaper WP 102-1 (excluding attachment 1).			
Threat		Actions (addressing threats)	
1	There is a familiarity threat to independence/objectivity because TCI has been the auditor of Mofasa for 17 years and a perception can therefore exist that the firm is no longer acting independently from the company because TCI has a long association with Mofasa (i.e. the audit client).	0.5	Consider rotating Jimmy off the audit to a partner who has not been involved with Mofasa in the past.
		1	Consider whether the appointment of another partner (other than the partner above) as an engagement quality control review partner would assist in
			1

			ensuring a quality audit is performed.	
2	There is a self-interest threat to integrity/professional behaviour/professional competence and due care because Tim acts as business and tax advisor and may have recommended certain solutions to the client which may prove not to be the best for the client which may put pressure on the current team not to address these issues properly (i.e. discovering errors when evaluating the results of a previous professional service performed by a member of the audit firm).	0.5 1	Critically review all services performed by the firm and assess whether it may have any impact , or perceived impact, on the audit work to be performed .	1
3	There is a self-review threat to independence/objectivity because the firm may have proposed certain tax planning structuring or performed other advisory services which may need to be audited by the firm (i.e. which is part of the subject matter of the assurance engagement).	0.5 1	Consider recommending to the client that it gets an independent opinion from another tax advisor if there are doubts whether the planning opportunities are in compliance with tax legislation.	1
4	There is a self-interest threat to integrity/ professional behaviour/professional competence and due care because there are allegations that control and governance deficiencies and non-compliance with laws and regulations have not been reported in the past and this may put pressure on the current team not to address these issues properly (i.e. discovering errors when evaluating the results of a previous professional service performed by a member of the audit firm).	0.5 1	Properly investigate the allegations , preferably by a partner not involved with the client, and properly report it to the client and others in terms of the requirements of NOCLAR and/or the Audit Profession Act (s45) .	1
5	There is a self-interest threat to independence/objectivity and professional behaviour because as Jimmy is Tim's son , and he may therefore be reluctant to act on any audit issues identified that may reflect on work done by his father due to the father-son relationship (i.e. discovering errors when evaluating the results of a previous professional	0.5 1	Consider rotating Jimmy off the audit to a partner who has not been involved with Mofasa in the past. Consider whether the appointment of another partner (other than the partner above) as an engagement quality control review partner would assist in	1 1

	service performed by a member of the audit firm).		ensuring a quality audit is performed.	
6	There is self-interest threat to independence/objectivity because the firm may be providing non-assurance services such as preparing financial statements/providing templates for completion of financial statements that will be audited by TCI (i.e. discovering errors when evaluating the results of a previous professional service performed by a member of the audit firm).	0.5	Consider making use of individuals not part of the audit team to perform the non-assurance services .	1
		1	Have an appropriate reviewer who was not involved in the non-assurance service to review the audit work performed.	1
7	There is self-review threat to independence/objectivity because the firm may be providing non-assurance services such as preparing financial statements/providing templates for completion of financial statements that will be audited by TCI (i.e. which is part of the subject matter of the assurance engagement).	0.5	Consider making use of individuals not part of the audit team to perform the non-assurance services .	1
		1	Have an appropriate reviewer who was not involved in the non-assurance service to review the audit work performed.	1
Overall action: If any of the threats above cannot be resolved, reconsider whether the audit engagement should be accepted.				1
Available				22.5
Maximum				13
<i>Communication skills – logical argument</i>				<i>1</i>
Total for part (c)				14

Part (d) Discuss the professional conduct of Zenzi in terms of the SAICA Code of Professional Conduct with reference to workpaper WP 102-1 (excluding attachment 1).		Marks
1	Zenzi is a CA(SA) in business (formally in public practice) as she has her own consultancy firm, and she was recently still in her training contract with TCI, and is therefore required to adhere to Parts 1, 3 and 4 of the SAICA Code of Professional Conduct (CoPC) .	1
2	Zenzi's professional behaviour is in question because she is acting in an unprofessional manner by criticising the technical competence and work done by other CAs(SA) , namely Lana and Timon, without substantiation of her claims or filing a complaint with SAICA / the IRBA because S115 of the CoPC requires that a professional accountant should not engage in conduct that may discredit the profession.	0.5 1
3	Zenzi's professional behaviour is in question because she could be using confidential information gained while on the audit and working for another firm for her own personal interest to obtain consulting work from Mofasa which is not in line with the CoPC because S114 of the CoPC requires that a professional	0.5 1

	accountant should not use confidential information acquired as a result of professional and business relationships for the personal advantage of the professional accountant.	
4	Zenzi's integrity /professional behaviour is in question because she is making allegations of financial mismanagement that are not substantiated and may be false and have not disassociated herself from that information which is not in line with the CoPC because S111 of the CoPC requires that a professional accountant act with integrity.	0.5 1
5	Zenzi's objectivity is in question because she appears to be influenced by her personal bias towards her husband's business partners in an attempt to win work for herself which is not in line with the CoPC because S112 of the CoPC requires that a professional accountant comply with the principle of objectivity, which requires a professional accountant not to compromise professional or business judgement because of bias, conflict of interest or undue influence of others.	0.5 1
6	Zenzi's professional competence and due care/professional behaviour/integrity is in question because it seems as if Zenzi identified some of the control and governance deficiencies and non-compliance with health and safety regulations during her tenure as audit trainee and she did not speak up about the issues . She should have raised her concerns with other partners in the firm if she was felt that it was not appropriately addressed.	0.5 1
7	Zenzi's professional behaviour/objectivity is in question because Zenzi joined Mofasa as consultant to prepare the financial statements as she could have wanted to manipulate the financial results to achieve her husband's personal objectives or prepare results that reflect poorly on Lana instead of complying with the reporting standards .	0.5 1
8	Zenzi's professional behaviour/objectivity is in question because it is not clear when Zenzi was performing the controls testing on used cars and she could already have been in a relationship with Mo when she was performing audit work at the client.	0.5 1
9	Zenzi's professional competence and due care is in question because Zenzi is a recently qualified CA(SA) and thus might not yet possess the necessary experience to take on such a large client as Mofasa (not knowing what she is getting herself in to).	0.5 1
	Available	13
	Maximum	6
	Total for part (d)	6