

Part (b)	Discuss, with reference to matter 3 in the extract from the minutes of the Board meeting, the impact on the auditor's report if Firstgro does not make changes to the AFS regarding this matter	Marks
1	An <i>audit difference</i> exist as the debt is incorrectly classified as non-current debt instead of current at year-end and constitutes a classification misstatement , because IAS 1 (para 76) requires the AFS to show the conditions that exist at year-end .	1 1
2	The restructuring of the Install-Ment bank debt was only effective from 15 January 2021 (new financial year) , which constitutes a non-adjusting event in terms of IAS 10 .	1
3	The audit difference/misstatement of ZWL110 million is quantitatively material as it exceeds the materiality level of ZWL10 million.	1
4	The audit difference is also qualitatively material as the incorrect classification between current and long-term debt will affect the debt and contractual covenants <ul style="list-style-type: none"> • The institutional (DBZ) borrowings covenants are based on the non-current ratios as well as current liabilities not exceeding current assets and therefore it relates to important ratios – which are likely to influence the economic decisions of users (in particular the DBZ). 	1 1
5	Accordingly, the auditor needs to provide a modified audit opinion - Nature of/basis for modification: if the classification misstatement is deemed by the auditor to be material but not to affect the financial statement as a whole in a pervasive manner, a “qualified” audit opinion will be expressed with an “except for” paragraph in the audit report, Alternatively if the auditor regards the classification misstatement to be material and pervasive based on the going concern that might potentially be affected, an “adverse” audit opinion will be expressed (award mark based on arguments and type of modification)	1 1 1
Available		9
Maximum		4
Total for part (b)		4

Part (c) Describe, based on matter 2 in the extract from the minutes of the board meeting, the substantive procedures that J&A should perform to obtain sufficient and appropriate audit evidence regarding the DBZ loan included in the consolidated AFS for FY2020.	Marks
<i>Note to markers: Procedures were not asked per assertion. Assertions provided below are for educational purposes.</i>	
Assertion: accuracy, valuation and allocation	
<p>1. Loan agreement: Inspect the <i>loan agreement(s) with DBZ bank</i> and verify the following details:</p> <ul style="list-style-type: none"> • Loan advance amounts during FY2020 • Monthly repayment amounts • That the interest rate is charged at prime • The covenant requirements • For the signatures (in particular agreement for FY2020 loan advances) of authorized parties of DBZ bank and Firstgro. <p>Inspect the board minutes and confirm the approval/authorisation to enter into a loan agreement with Development Bank of Southern Africa and any specific conditions related thereto.</p> <p>Inspect the MOI of Firstgro to ensure that no potential restriction on the level of debt from institutional borrowings have been breached.</p>	<p>1 1 1 1 1 1 1</p>
<p>2. Loan advances: Agree amounts/advances as per the general ledger account/amortisation schedule received from the DBZ during the year to the bank statements.</p>	1
<p>3. Loan repayments: Agree amounts as per the general ledger account/amortisation schedule paid to the DBZ on the loan (interest and capital) during the year to the bank statements.</p>	1
<p>4. Interest raised: Agree interest amount incurred on the loan for the year as per the general ledger account/amortisation schedule to <i>the relating journal entry raised</i>, through inspection.</p>	1
<p>5. Amortisation schedule</p> <ul style="list-style-type: none"> - Agree the <i>interest rate used in the table</i> to the official prime interest rates during the financial year as per the reserve bank notice/3rd party source (right interest rate used as prime). - Test the <i>arithmetical accuracy</i> of the amortization schedule by <i>recalculating interest</i> amounts using the interest rate obtained from the previous procedure; - Recalculate <i>short and long-term portion of the loan</i> and confirm the accuracy of the amounts per the amortisation schedule. 	<p>1 1 1</p>
Assertions: Existence, accuracy and rights & obligations	
<p>6. External confirmation: <i>With the client's permission</i>,</p> <ul style="list-style-type: none"> - send an <i>external confirmation</i> (third party confirmation) to DBZ to verify: - <i>details:</i> zimbabwean dollar amount, interpretation of covenant requirements, surety's etc. 	<p>1 1 1</p>
Assertions: Assessing compliance with agreement which directly impacts / tests classification & presentation	
<p>7. Covenant compliance: test compliance of DBZ with the covenants as stated:</p> <p>7.1 Financial statements within 60 days: Inspect proof that the Annual Financial Statements (AFS) financial information has <i>historically</i> been submitted to the bank within 60 days; and</p> <ul style="list-style-type: none"> - enquire about management's process to ensure that the AFS for the <i>2020 financial year</i> will be submitted to the bank within 60 days. 	<p>1 1</p>
<p>7.2 Ratios: Recalculate the ratios as per the loan agreement using the amounts in the consolidated cash flow statement and determined if conditions are met.</p>	1

7.2 Long and short-term classification: Consider based on the recalculations if the classification of long and short-term amounts was done correctly.	1
7.3 Management reports to bank: Inspect the reports submitted by management to the bank regarding compliance with the debt covenants and consider whether it agrees with our workings.	1
7.4 Inspect communications (letters) from the bank regarding its views / thoughts on the company's compliance with the covenant requirements/other arrangements made.	1
Assertion: Presentation	
8. Disclosure required to IFRS 7: Inspect the financial statement notes for the disclosures in respect of the DBZ loan to ensure it is provided according to the requirements of IFRS 7.	1
Ensure the following are disclosed: <i>Interest expense; Exposure to interest rate risk; Exposure to liquidity risk; Exposure to market risk, How the liabilities were classified (amortised cost). (one mark for detailed provided)</i>	1
9. General disclosure: Inspect the AFS and determine that the following disclosures are correct:	
• DBZ loan covenants terms	1
• Amounts, facts and dates are accurate and complete through agreeing to the loan agreements;	1
• Short and long-term position: Agree the value of the short-term portion of the long-term debt disclosure to the amortisation schedule for 12 months post year-end and our workings.	1
• Specifically consider whether disclosure as long-term is still appropriate for the expected long-term portion of the debt given that the debt covenants appear to have been breached at year-end.	1
Available	28
Maximum	10
Communication skills – clarity of expression	1
Total for part (c)	11

Part (d) Discuss, based on all the information provided, eight corporate governance concerns regarding the Firstgro group and the conduct of its directors with reference to the ZNCCG, King IV, and the Companies Act.		Marks
<ul style="list-style-type: none"> Ignore Principle 1 of the King IV Report. 		
<p><i>Note to markers: the corporate governance concerns should be marked irrespective whether it is listed under a specific heading or not. Also the reference to the King IV principles are not required and provided for reference purposes only.</i></p>		
1	Composition of governing board, independence, conflict of interest and diversity	
1.1	<p>The chairman of the Board should be an <i>independent non-executive director</i> [P7 PR 31], which is not the case as chairperson (Leon Kulula):</p> <ul style="list-style-type: none"> is still a <i>significant shareholder</i> [P7 PR 28c] is <i>related (father-in-law) to an executive, namely the CEO (Mandla Mhize)</i> [P7 PR 28d]. is <i>serving as on the board for 15 years which is longer than the recommended 9 years</i> which is deemed to impact independence [P7 PR 29], and the below exceptions are also not met; <ul style="list-style-type: none"> a non-executive director <i>may continue to serve in an independent capacity for longer than nine years</i>, if upon an assessment, the independence is not jeopardized [P7 PR 29], however it is unlikely that Leon’s independence is not jeopardized and in addition, a <i>succession plan</i> is to be in place for the chairperson [P7 PR 37]. 	2 2 2 2 2
1.2	The lead independent director’s (Cyril Zazuma) independence is jeopardised because he is a <i>representative from one of the subsidiaries</i> and is serving on the <i>board of the subsidiary</i> (which is a related company to Firstgro) [P7 PR 28h].	2
1.4	The CEO (Mandla Mhize) is related to the Chair of the Board as he is the son-in-law of the Chairperson of the Board – which results in a conflict of interest for the CEO [P 10PR 80].	2
1.5	Christinah Ramakoai is not independent as <i>she served in an executive position shortly before she was appointed on 1 July 2019</i> . The recommendation of a cool-down period of 3 years to ensure independence [P7PR28d] was not adhered to, as no time lapsed before her appointment as a non-executive director.	2 2
1.6	Nathan Pilay’s independence can be questioned as he is a <i>long-time friend of the CFO Vikesh Sjabool</i> . [Note: Even though ‘familiarity’ is not listed specifically under the King IV recommendations [P7 PR 28] as an aspect that could threaten independence, it could create a <i>conflict of interest</i> to the Board and Audit Committee workings, membership, and <i>perceived’ independence</i>].	2
1.6	The Board should consist of a majority of non-executive directors, most of whom should be independent [P 7 PR 8], which is not the case as <i>four of the seven directors have independence threats/appear not to be independent (Leon, Nathan, Chirstinah and Cyril)</i> .	2
1.7	Gender representation is not adhered to as there is <i>only one female on the Board</i> , namely Christinah Ramakoai.	2
2	Balance of power and delegation of authority	
2.1	CEO (Mandla) : There should be arrangements for delegation of power and effective discharging of the responsibilities of the Board and the effective and	

	<p>ethical steering of the company [P8; P10], which appear not to be the case as the CEO (Mandla):</p> <ul style="list-style-type: none"> • appears to be “<i>absent and not participating</i>” in important matters at the Board meeting; • and also, according to the Chair of the Audit committee (Nardo), <i>never voices his opinion</i> and did not respond to CFO’s refusal to establish a task team to investigate the concerns raised by the ICAZ Technical Committee 	2
2.2	<p>The CFO (Vikesh) can be regarded as ‘domineering’ for the following reason(s):</p> <ul style="list-style-type: none"> • None of the Board members went against his ‘<i>refusal</i>’ to <i>appoint a task team to investigate the ICAZ Technical Committee report</i>. • The <i>ICAZ Committee</i> made enquiries about the treatment of items in the statement of cash flows, which was <i>apparently disregarded by the CFO</i> (insisting the matter was RESOLVED), contributing to the inability of board members to act upon this. 	2 2
3	Appointment of audit firm	
3.1	<p><i>In terms off the Companies Act the auditor should be appointed at the AGM, or if no appointment is made this should be done by the Board of Directors.</i></p> <ul style="list-style-type: none"> • However, it appears as if <i>CFO made the decision</i> regarding the appointment of a new audit firm, without audit committee oversight; • There was also <i>no consideration/input from the audit committee regarding the independence of the auditors</i> and the familiarity threat, as is evident from the close family relationship (brother in law) of Vikesh and Ronald. 	2 2
4	Reliable financial reporting	
4.1	<p>In terms of the Companies Act the company should be responsible for reliable financial reporting and engaging in misstatements in AFS is in breach of this section. The following raises concerns:</p> <ul style="list-style-type: none"> • The <i>CFO is against the appointment of the task team to investigate queries from the ICAZ Technical Committee team</i> about the treatment of certain matters in the AFS, <i>despite there being a clear indication that statements of cash flows contain material misstatements</i>. • In addition, the CFO states that he will make sure loan covenant requirements are met <i>while the suggestion on the treatment of restructuring of debt is incorrect</i>. • This raises questions on CFOs involvement in the misstatements and that Firstgro and <i>its directors are not taking responsibility for reliable financial reporting</i>. 	2 2 2
5	Audit Committee	
5.1	<p>All members of the Audit Committee should, according to King IV, be independent, non-executive members of the Board [P8PR56] which is not the case as <i>Christinah Ramakoa is not considered to be independent</i></p>	2
5.2	<p>The following raises concerns about the discharge of the Audit Committee members’ responsibilities and whether they are performing their functions effectively regarding reliability of external financial reporting [P8PR51b]:</p> <ul style="list-style-type: none"> • The Audit Committee <i>only had few hours to ‘review the AFS’</i> before the meeting on which the AFS should have been approved, it raises concerns whether the Audit Committee was in a position to ensure the reliability of external financial reporting. • The Committee <i>appeared not to have properly and diligently considered the fairness and reasonability of the AFS</i> (with possible identification of 	2 2

	misstatements in the <i>Cash Flow statement and treatment of Bank loan as non-current at year-end</i>).	
5.3	In terms of the Companies Act the Audit Committee should receive and deal appropriately with any concerns or complaints regarding the content or auditing of the company's financial statements , which appears not to be the case as: <ul style="list-style-type: none"> • The <i>ICAZ technical committee proactive monitoring report was not dealt with by the audit committee but given to the Chairman of the Board to act upon</i>; • The report contains allegations of <i>material misstatements</i> in the FY2019 final results and FY2020 interim results of the cash flow statement and this is the responsibility of the Audit Committee to deal with; • The suggestion to appoint a <i>task team and ultimately asking the CFO to deal with the matter at a Board meeting, rather than the audit committee</i> taking responsibility therefore is in contravention of this section as it should be the responsibility of the Audit Committee. 	2 2 2
5.4	Audit fees: It is duty of the audit committee to determine the external audit fees to be paid), however, it appears that the <i>fees were agreed with the CFO instead</i> .	2
5.5	The members of the Audit Committee should as a whole have the necessary financial literacy, skills and experience to execute their duties effectively [P7PR55], which is <i>questionable in view of the lack of oversight leading to misstatements in cash flow statements and classification of the Bank loan</i> .	2
6	Remuneration committee chair: The chairperson of the remuneration committee is required to be an independent, non-executive director (King IV Principle 8:67), which Cyril, the current chairman of the committee is not .	2
7	Appointment of company secretary: Firstgro, a public company, appears to have not appointed a company secretary as is evident in the fact that directors are not complying to certain laws and regulations as well as the lack of balance of power and delegation of authority (2
8	Directors' fiduciary duties	
	The Companies Act requires the directors to act in <i>good faith and the best interest of the company and with the degree of care, skill and diligence</i> which does not appear to be the case as: <ul style="list-style-type: none"> • The actions of the <i>CFO do not appear to be in the best interest of the company but rather to 'serve his own interests'</i> (e.g. he stated instituting a task team would be undermining <i>his</i> competence). • The <i>CEO/Chairman/Board not going against the CFO's refusal to appoint a task team to investigate</i> the ICAZ Technical Committee report could be perceived as not acting with care and diligence. • One of the <i>members of Audit Committee is rushing through a meeting</i> for another appointment meant he is not acting with the required skills and diligence. • The board signed off/authorised financial statements that appear to have contained material misstatements in the consolidated statement of cash flows • The directors of Firstgro appear to be guilty of <i>reckless trading</i> as they took advantage of the fact that the company is in a stable industry by <i>over-gearing the company</i>, which could potentially lead to the company not being able to repay all the debt in the normal course of business (especially if loan covenants with DBZ are not met) 	2 2 2 2 2
Available		70

	Maximum	15
	<i>Communication skills – appropriate style</i>	1
	Total for part (d)	16

Part (e) In terms of the ICAZ Code of Professional Conduct – (i) discuss any ethical concerns you have in respect of Vikesh’s conduct;		Marks
1	As Vikesh Sjabool is a CA(Z) in business, part 1 and 2 of the ICAZ Code of Professional Conduct is applicable.	1
2.	<p>It appears as if Vikesh did not comply (already breached) with the fundamental principles (of Integrity, Objectivity, Professional Competence and Due Care and Professional Behaviour)</p> <p><u>Motivation:</u></p> <ul style="list-style-type: none"> • Vikesh did not comply with the integrity principle, as it appears Vikesh is aware that the financial statements are misstated in regards to the Cash Flow Statement and Classification of loans between short and long term to meet the covenants as he refused for a task team to be established to investigate the concerns raised by the ICAZ Technical Committee. • Vikesh did not adhere to the objectivity principle, when he placed pressure on/intimidated the board to not establish a task team to investigate the concerns raised by the ICAZ Technical Committee as he stated it would “undermine his competence”. • Vikesh breached professional behaviour since, there are several instances of the CFO engaging in the non-compliance with the Companies Act (i.e. appointment of audit firm, approval of remuneration, not preparing financial statements in accordance with applicable financial reporting framework, etc.) AND • Contravening the Companies Act bring into question his adherence to the fundamental principles to perform his role as director, specifically in the position as CFO of Firstgro. • Vikesh did not comply with the professional competence and due care principle when he handed financial statements to the audit committee that were not complete. • Vikesh did not comply with the integrity/objectivity principle as it appears that he aimed to intentionally mislead the audit committee and cover up the misstatements by submitting the AFS to the Audit Committee members only a few hours before its meeting, and thus not giving the Audit Committee members sufficient time to review the financial statements in detail and possibly identify the misstatements in the consolidated cash flow statements. 	<p>½</p> <p>1</p> <p>½</p> <p>1</p> <p>½</p> <p>1</p> <p>½</p> <p>1</p> <p>1</p>
3.	<p>The presentation of false and/or misleading information (misstatement of financial statements) could result in the following threats to the fundamental principles:</p> <ul style="list-style-type: none"> • Self-interest threat to integrity, objectivity and professional behaviour Vikesh as CFO will benefit if the loan covenants are not breached and the cash flow statements present a better position than is the case as this will strengthen his position as CFO and might impact on his remuneration/perception of his competence. • Self-interest threat to integrity, objectivity and professional behaviour Vikesh made the statement that “he will ensure that loan covenant requirements are met”, which indicates that he is willing to intentionally misstate the financial statements with the intention to influence contractual requirements in an attempt to meet the stringent loan requirements. 	<p>½</p> <p>1</p> <p>½</p> <p>1</p> <p>½</p>

	<ul style="list-style-type: none"> • Self-interest/Self-review threat to integrity and professional competence and due care The CFO refused to agree to the appointment of a task team after the ICAZ Technical Committee report queried how items had been accounted for in the consolidated cash flow statement and stated he will ask Ronald for assistance and this appear to be in his best interest since there are indications the financial statements were not prepared in terms of the applicable financial reporting framework, which is his ultimate responsibility. • Advocacy threat to integrity and professional behaviour The CFO made the statement that 'he will ensure that loan covenants requirements are met', which indicates that he might provide an over-optimistic picture of the financial performance and position, and the financial statement misstatements are possibly intended to influence contractual requirements in an attempt to meet the stringent loan requirements. • Familiarity threat to objectivity and professional behaviour It is possible (especially given his insistence on the audit engagement partner at the time of the appointment) that the CFO could force his brother-in-law to 'sign off' on misstatements in the FY2020 financial statements, • Intimidation threat to integrity, objectivity and professional behaviour Ronald Sinri actions might be jeopardized by Vikesh actions as he might put pressure on Ronald to sign off on the audit opinion for the FY2020 AFS even if the financial statements contain misstatements. <p>General: Vikesh misleading the users of the financial statements will discredit the profession if the public becomes aware of it.</p>	<p>1</p> <p>½</p> <p>1</p> <p>½</p> <p>1</p> <p>½</p> <p>1</p> <p>1</p>
4	<p>Evaluation of threats: The threats resulting from presentation of false and/or misleading information are significant, hence the following safeguard can be instituted (MAX 1):</p> <ul style="list-style-type: none"> • The audit committee should take full responsibility of liaison and communication with the external auditors, J&A, who have already been appointed. • Vikesh (CFO) should remove himself from a potential staff member that the audit team could contact to obtain audit evidence from and the audit team's point of reference for the audit should be the financial manager and not Vikesh. • A company secretary should be appointed to guide Vikesh as to his duties, responsibilities and powers. • Vikesh should resign from the position as CFO of firstgro 	<p>1</p> <p>1</p>
Available		22.5
Maximum		8
Total for part (e)(i)		8

Part (e) In terms of the ICAZ Code of Professional Conduct – (ii) describe the threats to the fundamental principles arising from Ronald’s conduct/objectivity		Marks
1	<p>Brother in law is CFO: A familiarity threat to his objectivity (independence)</p> <ul style="list-style-type: none"> As the <i>audit partner (Ronald)</i> is related to the CFO (he is his brother-in-law) a close family relationship exist which could result Ronald being too sympathetic towards his brother-in-law and his responsibilities. 	<p>½</p> <p>1</p>
2	<p>Late acceptance of audit/tight deadline: A self-interest threat to professional competence and due care</p> <ul style="list-style-type: none"> The <i>late acceptance of the engagement</i> (10 January 2021) to complete an audit engagement for a large listed group of entities could result in insufficient time to complete the audit engagement within the required time. 	<p>½</p> <p>1</p>
3	<p>Low fee charged: Self-interest threat to professional competence and due care/ professional behaviour</p> <ul style="list-style-type: none"> The <i>fee charged/tight budget</i> might impact the Ronald’s, as a professional accountant, <i>ability to perform the reasonable assurance engagement in accordance with professional standards/legislation</i> 	<p>½</p> <p>1</p>
4	<p>Same fee as last year: A self-interest threat to professional competence and due care/professional behaviour</p> <ul style="list-style-type: none"> <i>Charging the same fee as the prior year</i> could lead to <i>non-quality audit work</i> if the fee does not allow sufficient time (and resources) to perform the required audit procedures to be performed in terms of the audit standards; 	<p>½</p> <p>1</p>
5	<p>Tight audit budget: Intimidation threat to professional competence and due care/professional behaviour</p> <ul style="list-style-type: none"> Could result in <i>less hours spend on the audit and insufficient and inadequate audit procedures</i> as what is required as to <i>meet the CFO’s expectation of a low audit fee</i> 	<p>½</p> <p>1</p>
6	<p>Instruction not to book unnecessary time: A self-interest threat to integrity</p> <ul style="list-style-type: none"> The request that the audit team members only perform the necessary audit procedures could result in Ronald not being straightforward or honest and expects the audit team members to do the same. The hours spend on a client should be booked, irrespective of whether it exceeds the budgeted hours. 	<p>½</p> <p>1</p>
7	<p>CFO replaced previous auditor: An intimidation threat to the objectivity (independence) to the newly appointed audit firm/audit partner</p> <ul style="list-style-type: none"> The fact that the <i>CFO replaced the previous auditors because he was unsatisfied with their services</i>, could lead to the newly appointed audit firm, and Ronald as audit partner feeling intimidated and unduly influenced by the CFO (running the risk of replacement). 	<p>½</p> <p>1</p>
8	<p>Instruction to only perform the necessary audit procedures: A self-interest threat to professional competence and due care</p> <ul style="list-style-type: none"> The request to the audit team to perform only the necessary audit procedures to ensure that the team keeps to the budget could result in a rush to finish the work and the team might not apply the necessary care. 	<p>½</p> <p>1</p>
9	<p>Not charge unnecessary time: An intimidation threat to integrity</p> <ul style="list-style-type: none"> The suggestion that the audit team members should not charge ‘unnecessary time’ to the audit engagement is putting pressure on others (audit team members) and brings about pressure to breach fundamental principles. It is dishonest and acting without integrity to not charge the correct hours to the audit engagement. 	<p>½</p> <p>1</p>

10	<p>J&A to resolve ICAZ Technical Committee issues: Advocacy threat to objectivity (independence)</p> <ul style="list-style-type: none"> The suggestion by the CFO that J&A be used to resolve the issues with regard to the ICAZ Technical Committee report result in J&A being be asked to go beyond the task of auditing Firstgro. The audit firm and Ronald may be asked to provide some consulting information and advocate the client's position at the ICAZ Technical Committee. 	<p>½</p> <p>1</p>
11	<p>J&A to resolve ICAZ Technical Committee issues: Self-review threat to objectivity (independence)</p> <ul style="list-style-type: none"> Should Ronald assist with resolving and preparing a response to the ICAZ Technical Committee report issues raised, he might not appropriately evaluate the results since he would have ultimately audited that same results/financial information queried by the ICAZ <i>Technical Committee.</i> 	<p>½</p> <p>1</p>
	<p>Evaluation of threats: The threats resulting from Ronald's appointment as Firstgro audit engagement partner is significant and cannot be reduced to acceptable level, hence the following safeguard should be put in place (MAX 1):</p> <ul style="list-style-type: none"> Ronald should resign as the engagement partner and the audit should be handed over to another audit partner at J&A to complete the audit for FY2020. J&A should not be re-appointed as the auditors of Firstgro for future audits. 	<p>1</p> <p>1</p>
Available		18.5
Maximum		11
Total for part (e)(ii)		11
<i>Communication skills – logical argument</i>		<i>1</i>
Total for part (e)		20