

Part (d) Critically evaluate Jessica's application of the 'good for the self and good for others' principles based on the content of her email to the board of directors.		Marks
1	When considering whether a decision is good for oneself and others, one needs to consider and act in the best interest of all relevant stakeholders (including suppliers and financiers).	1
	Good (bad) for self	
2	Jessica not only disregards labour laws and regulations, but is also in breach of the Companies Act and Regulations (e.g. business rescue, reckless trading, etc.), which could lead to the following:	1
2.1	Directors could be held liable in their personal capacity	1
2.2	Potential penalties and fines could place further pressure on the company's financial position (placing the going concern ability of the company under further pressure).	1
2.3	It could cause reputational damage and loss of clients, resulting in further financial pressure.	1
3	Jessica suggests being dishonest with banking institutions, which could result in difficulties to obtain future finance when the company needs it (for example, financing of the hand sanitiser plant).	1
4	By not having a proper trail for decision making (documenting of decisions seems inappropriate) is not good for the company.	1
	Good (bad) for others	
5	Zimbabwe's unemployment rate is rapidly increasing and limiting job losses at Kidzo (as proposed by Jessica) will positively influence this figure/ Zimbabwe Government will benefit by saving the need to pay UIF for the relevant employees and continue to receive PAYE from workers/ concerned over the welfare of the staff/ trade creditors and the company by continuing to operate.	1
6	Deceiving banks/creditors, rather than renegotiating terms, could contribute to financial difficulties for, or even the downfall of, these banks and creditors.	1
6.1	No consideration is given to the employees who work at these institutions/companies or their families.	1
6.2	Not paying creditors who are about to close down and accusing them of inferior stock, are both untruthful and unfair towards those creditors who would receive less in a liquidation process.	1
6.3	Zimbabwe's economy is weak and at a low point and refusing to consider business rescue when it may be needed, would not be conducive to the economy, creditors or banks .	1
7	Jessica suggests that, where retrenchments are necessary, underperformers and trouble-makers should be retrenched, which is not a fair and transparent process. It is also contradictory to the company's 'strive for a culture of engagement with all employees'.	1
8	By continuing to operate the business, the going concern ability of the company will be at risk and thus all staff at Kidzo may ultimately lose their employment, hence in the long-run the decision is not good for staff.	1
9	Not all the relevant "other" stakeholders (groups) are considered by Jessica (e.g. focus is mostly limited to the employees/the impact on the Profession is not considered).	1
10	Closing the business will result on the social responsibility of the company being lost, and the positive impact it has on education, as well as the environment	1

11	Jessica's application of the good for self and good for other principle does not achieve this objective as her actions go against ethical principles	1
Available		19
Maximum		7
<i>Communication skills – logical argument</i>		<i>1</i>
Total for part (d)		8

Part (e) Describe, with reasons, any statutory and other corporate governance concerns that you may have, considering all information provided about Kidzo.		Marks
1	ZNCCG and the Companies Act prohibits reckless trading or trading with the intent to defraud any person; Kidzo is clearly attempting to defraud some of its creditors by purchasing on credit without intent to pay/ trading whilst factually insolvent.	1
2	Kidzo is also making false statements and displaying reckless conduct by –	
2.1	sending letters to creditors and banks stating that Kidzo is financially sound; and	1
2.2	refusing to at least consider business rescue proceedings.	1
3	The Board is in contravention of the ZNCCG and the Companies Act, because it is aware of the company's financial distress but nevertheless fails to either pass a resolution to place the company in business rescue/judicial management or deliver a written notice to each affected person.	1
4	It is suggested that some staff are laid off without following due retrenchment processes, which is a contravention of the Labour Relations Act/Unions not consulted.	1
5	By not complying with the above-mentioned laws and regulations of the Companies Act, Kidzo is also not applying the recommended practices of the ZNCCG and King IV, which state that the governing body should assume responsibility for the governance of compliance with laws, regulations, etc. (P13PR1/ P3PR12).	1
6	The first principle of King IV states that the governing body should be ethical and effective in its leadership. This principle (Principle 1) is not adhered to for the following reasons:	
6.1	The Board of Kidzo does not assume collective responsibility for steering the company. Given the email sent by Jessica to the Board, it seems that she is dominating the decision-making process on vital matters concerning the company and its wellbeing (P1RP1c).	1
6.2	This also contradicts P8RP44, which recommends a balanced distribution of power to avoid domination by one individual in decision making.	1
7	The Board is not transparent in its dealings, as –	
7.1	staff may be retrenched without following a formal process;	1
7.2	letters sent to banks and creditors contain false information about Kidzo's financial position; and	1
7.3	Kidzo is deliberately not recording its decision in minutes of meetings.	1
7.4	The effectiveness of the Company Secretary is questionable (not advising against the proposals of Jessica due to its legislative breaches).	1
8	For the above reasons, it can also be argued that the Board members either lack integrity (they know it is wrong, but do it nevertheless) or they lack competence (by not knowing that their actions are wrong).	1
9	Should the Board pay selective creditors only and refuse to pay those who will possibly be liquidated, they would also not be exhibiting fairness/ committing an act of insolvency in terms of the Insolvency Act.	1
10	The Board's responsibility to govern relationships with stakeholders, such as employees and creditors, is clearly not adhered to (P16RP1).	1
11	ZNCCG and King IV also recommends that the governing body should assume responsibility for ethics within the organisation, creating an ethical culture. From the above, the ethical 'tone' at the top at Kidzo is questionable (Principle 2).	1
12	The establishment of a Social and Ethics Committee/Risk Committee for Kidzo is a ZNCCG requirement, but it seems that the arrangement for delegation of duties normally associated with a social and ethics committee	1

	are not in place, given that decision making with significant ethical concerns is left to Jessica (Principle 8).	
13	Kidzo operates in a greater society and should ensure that the company is and is seen to be a responsible corporate citizen (Principle 3). However, the suggested approach to staff layoffs and treatment of creditors would negatively impact the workplace, economy and society.	1
14	In general, the actions (conduct) of Jessica (and by their failure to intervene, the rest of the directors) are such that they are likely to contravene the ZNCCG and the Companies Act, specifically by failing to exercise their duties in good faith and for a proper purpose, and in the best interests of the company. As a result the directors may be held liable for any losses suffered.	1 1
15	The requirement imposed by Jessica that the contents of the email not be recorded in any minutes of the company may constitute a contravention of the ZNCCG and the Companies Act, which requires that the minutes should include every resolution adopted by a board/ Jessica and/or the action of the directors is not appropriate in a business context (business ethics) e.g. by misrepresenting their financial position, the directors will be committing fraud.	1
16	Any chartered accountant involved in these management decisions will be subject to ICAZ and PAAB disciplinary actions.	1
Available		22
Maximum		10
<i>Communication skills – appropriate style</i>		1
Total for part (e)		11

Part (f) Discuss what impact Jessica’s email to the board of directors will have on the external auditor’s planning of the audit of Kidzo’s annual financial statements for FY20		Marks
<ul style="list-style-type: none"> Assume that the external auditor is aware of the contents of the email. 		
1	The integrity of Jessica / the management will be questionable due to her e-mail asking the Board to turn a blind eye to / condone unethical / illegal business practices. This increases the risk of material misstatement at the financial statement level due to their likely rationalisation of fraudulent / inappropriate conduct/weak control environment/ tone at the top .	1
1.1	The statement ‘we need to realise that laws were not drafted for times such as these’ indicates that management is willing to disregard laws such as the ZNCCG, Companies Act and the Labour Legislation.	1
1.2	There is a seeming willingness to be dishonest in communications to banks / creditors simply to achieve management’s objections – this is likely to be more pervasive and to extend to conveying misleading information in the financial statements.	1
2	Management appears to be aware that their actions are inappropriate and are willing to cover it up – as evidenced by the instruction not to record the contents of the email anywhere. This will increase the risk of material misstatement at the financial statement level, because the audit trails supporting the financial statements may be altered / amended to suit management’s agenda.	1
3	The risk at the financial statement level is further increased by the incentive that management will have to engage in fraudulent financial reporting – in the light of the going concern challenges being experienced.	1
4	In response to the high risk of material misstatement at the financial statement level, the following overall responses should be incorporated into the audit plan: <ul style="list-style-type: none"> Emphasising to the engagement team the need to maintain professional scepticism. (i.e. rigorously assess journal entries, accounting estimates/policies, non-compliance to laws and possible reportable irregularities) Assigning more experienced staff to the audit / providing more supervision on the audit. Incorporation of additional elements of unpredictability in the selection of further audit procedures to be performed. Increased recognition of the need to corroborate management representations regarding material matters, OR perform audit procedures that yield reliable audit evidence;(more substantive in nature/less reliance on analytical procedures/more tests of detail) Increased sensitivity in the selection of the nature and extent of documentation to be examined in support of material transactions. Given the overall increase in the risk of misstatement in the financial statement, consider reassessing the overall materiality to be applied in the financial statements and lower overall materiality. 	Max 3
5	The imminent factual insolvency of Kidzo will increase the risk that the going concern basis of accounting has been inappropriately applied in the preparation of the financial statements for FY2020.	1
6	As such, the auditor should respond to this risk by –	

	<ul style="list-style-type: none"> - performing an extensive evaluation of management’s assessment of the company’s ability to continue as a going concern (including detailed evaluation of the forecasts prepared); and - performing extensive work on the feasibility and effectiveness of the mitigating factors identified relating to the factual insolvency. - Obtain confirmation from the company’s lawyers regarding any litigation which could affect the going concern status of the company. 	Max 2
7	<p>There is also an increased risk of material misstatement regarding assertions such as the completeness of liabilities or existence/valuation of assets due to</p> <ul style="list-style-type: none"> - the inherent incentive of management to understate liabilities or overstate assets to reduce the company’s factual insolvent position; and - the consequences of non-adherence to laws and regulations that are likely to be accompanied by legal claims and penalties, for which full provision may not have been made. 	1 1 1
8	<p>To respond to such risks, the auditor should respond by –</p> <ul style="list-style-type: none"> - increasing the extent of testing on the completeness of liabilities/ existence/valuation of assets , and - perform audit procedures that yield reliable audit evidence;(more substantive in nature than controls testing/less reliance on analytical procedures/more tests of detail) and - including amongst others reliance on the services of a legal expert with regard to the Labour legislation, ZNCCG and Companies Act contraventions and the possible legal and financial consequences for the client. 	1 1
9	<p>Large sample selections by the auditor would have to be selected to ensure the high risk of material misstatement is adequately addressed during the performance of the audit (i.e. the extent of audit procedures performed should be increased).</p>	1
10	<p>Therefore the auditors should act on the more conservative side by selecting a lower performance materiality figure for the planning purposes. Given the overall increase in the risk of misstatements in the financial statements, consider reassessing the overall materiality to be applied in the financial statements & lower materiality.</p>	1
11	<p>Adjusting the timing of testing to be performed closer to year-end due to management’s incentive to manipulate the financials and conceal going concern issues (ie. cut-off) and the significance of the risks involved.</p>	1
12	<p>Consider whether to continue with the audit engagement as a result of the perceived increase in risks associated with Kidzo/Consider whether Kidzo would be able to pay audit fees due to the factual insolvency.</p>	1
Available		20
Maximum		11
Total for part (f)		11

Part (g) Describe the controls that should be implemented by Kidzo to ensure that the website designed and developed by the third-party service provider functions effectively.		Marks
1	A project team or steering committee, comprising competent individuals, should be appointed to oversee the appointment and approval of the service delivery by the provider.	1
2	User needs, specifications and requirements should be determined and agreed with the service provider before it is appointed such as: -Layout of the website -Field checks -Passwords	Max 3
3	A contract should be signed (a service level agreement should be in place) between Kidzo and the service provider.	1
3.1	The service level agreement should stipulate the following: The responsibilities of the service provider;	1
3.2	Consequences where specifications and requirements are not met (including liability for losses due to systems failure);	1
3.3	Additional, continuous support that may be required; and	1
3.4	A requirement for obtaining continuous assurance on the effectiveness of controls implemented by the service provider (e.g. an ISAE3402 Type 2 report).	1
4	A thorough review and test of the system should be conducted prior to launching the online platform to ensure that it meets all specifications and requirements.	1
5	Regular review and test of the system post the launch to ensure effectiveness.	1
6	Staff should be trained by the service organisation to enable them to effectively use the system.	1
7	Continuous monitoring of the system's effectiveness and resolution of issues with the service provider should be conducted by the project team or steering committee.	1
8	Manuals and other relevant documentation of the system being available should be obtained from the service providers.	1
Available		14
Maximum		8
<i>Communication skills – clarity of expression</i>		1
Total for part (g)		9

Part (h) Discuss whether an engagement to perform agreed-upon procedures would be the appropriate engagement to provide assurance on government incentives		Marks
1	The objective of an agreed-upon procedures engagement is for the auditor to carry out procedures of an audit nature to which the auditor, the entity and appropriate third parties have agreed and to report on factual findings. No assurance is provided, as users rather assess procedures and findings for themselves and draw conclusions from this (ISRS 440 para. 4 & 5).	
1.1	It is mentioned that the Donors and Government would require a form of assurance on what was done with the funding, while performing agreed-upon procedures does not provide such assurance.	1
1.2	If Donors and/or Government merely requires a report on what the funding was used for, this can be done with an agreed-upon procedures engagement, but it would require the auditor, Kidzo and the Donors and/or Government to agree on the procedures that the auditor should perform.	1
1.3	The auditors would issue their findings in the form of a report of factual findings and it would be up to Kidzo and the Donors and/or Government to interpret/evaluate the results of the procedures.	1
1.4	The report of factual findings will be restricted to the intended users (i.e. Kidzo and the Donors and/or Government), which might not be possible as the results may need to be published by the Donors and/or Government, being a public institution.	1
2	It is unlikely that an agreed-upon procedures engagement would be appropriate. If the Donors and/or Government do require assurance and a conclusion on / confirmation of whether the funding was utilised for a specific purpose, an assurance engagement in terms of ISAE 3000 is likely to be more appropriate.	1 1
2.1	In this case, agreement would have to be reached on the appropriate subject matter and suitable criteria and the practitioner would have to be satisfied that all five elements of an assurance engagement are present.	1
Available		7
Maximum		4
Total for part (h)		4