

Tutorial Letter 103/3/2013

ADVANCED THEORY OF AUDITING AND THE PERFORMING OF THE AUDIT PROCESS

AUE303R

Semesters 1 and 2

Department of Auditing

IMPORTANT INFORMATION:

This tutorial letter contains important information about your module as well as additional questions that you must do as part of your studies.

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1 INTRODUCTION

In this tutorial letter, we will provide suggested solutions to the questions set in Tutorial Letter 102. Before each topic, there will be comments on the answers. Please note that you may add to these answers, on condition that such additional points are relevant.

Reference to the solutions

The solutions are reproduced with the permission of the authors of *Graded questions on Auditing (2013)*.

2 MARK ALLOCATION

For each question, we have specified how long it should take you to answer the question and the maximum marks that you can achieve for it. In the suggested solution below, the authors allocated 1 mark for a valid statement. You will mark your answers accordingly. However, in the examination the following mark allocation applies:

- A correctly formulated sentence containing a full description of the audit procedure: **1½ marks**
- A fact contained in a sentence: **1 mark**
- Bullet points or listed aspects: **1 mark**

Remember to remain within the prescribed time limits and to time yourself. You will improve with repetition.

In some instances, the solution allows you to earn more marks than what the question requires. This makes it an "easier" question, but you can only earn the maximum amount indicated for the question.

Throughout the text, we will refer to the prescribed book as *Auditing notes* (Jackson, R & Stent, W. 2012. *Auditing notes for South African students*. 8th edition. Durban: LexisNexis).

3 TOPICS 5 AND 6: PRE-ENGAGEMENT AND PLANNING

Question 5.10

25 marks

Comments on question 5.10

This question is an excellent example of how ISA 210 could be assessed in the examinations. The same approach could also be adopted in respect of ISAs 700, 705 and 706. The examiner will provide you with a letter or report and you will have to identify all the errors in terms of the ISAs. The bottom line is that you must know and understand the ISAs to be able to answer the question successfully.

Suggested solution

Weaknesses

1. The letter has no date.

2. It does not indicate to which year's audit the terms of engagement apply.
3. It should be addressed to the audit committee (or the directors of the board).
4. It is addressed to the shareholders **and** to the chairperson, in different places.
5. The letter suggests that the audit manager should sign it. In fact, the designated auditor, that is, the partner who takes responsibility for the audit, should sign the letter (see Auditing Profession Act 2005).
6. The designated auditor has not been identified.
7. Auditors do not "certify"; they give an opinion on fair presentation.
8. The letter should not be imposing a deadline; it is our first audit and unforeseen events may occur.
9. The point relating to the limitations of the audit is poorly expressed – it looks as though the firm is "making excuses" before the audit has even started (see point 16).
10. Basing the fees on prior years' fees, particularly in the case of a first audit, is not an appropriate method of charging fees. Fees will be negotiated with the audit committee based on time, skills, experience, etc. This is particularly true in view of the fact that we were not the auditors in the previous year.
11. No explanation is given about why the client must sign the letter (acknowledge the terms of the engagement).
12. An unqualified report can never be guaranteed, for many reasons and not simply because of the limitations of the audit.
13. It is inappropriate to start a letter with "we have carried out an investigation", as it has a negative connotation. There is no need to refer to preliminary procedures that do not constitute an investigation into Vortex (Pty) Ltd.
14. 14.1 The letter does not indicate that the objective of the audit will be for us to express an opinion on the financial statements (consisting of the statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flow), and to give a summary of significant accounting policies and other explanatory information.
14.2 There is also no indication of why this audit is required. Vortex (Pty) Ltd, as a private company, does not have to be audited in terms of the Companies Act 2008. Therefore, the letter should indicate whether the audit is conducted at the request of the Board, the Memorandum of Incorporation, or a third party.
15. Our responsibilities as auditors are explained inadequately. No reference is made to
 - 15.1 the fact that the audit will be conducted in accordance with the **ISAs**
 - 15.2 compliance by us with the **ethical** requirements
 - 15.3 planning and performing to obtain **reasonable assurance** that the financial statements are free of material misstatement
 - 15.4 the fact that procedures selected depend on the **auditor's judgement**
 - 15.5 risk assessment evaluation of policies estimates and overall presentation

16. The letter does not alert the client to the fact that, because of the inherent limitations of an audit together with the inherent limitations of internal control, there is still the unavoidable risk that some material misstatement may **not** be detected, even though the audit is properly planned and performed.
17. Management's responsibilities are explained inadequately. No reference is made to their acknowledgement that they are responsible for the
 - 17.1 preparation and presentation of the financial statements in accordance with (e.g.) the IFRSs
 - 17.2 internal control needed for the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
18. Although management's responsibility for providing us with access is mentioned, it is poorly worded and incomplete. Mention should be made of access to
 - 18.1 all information relevant to the preparation of the financial statements such as records and documents
 - 18.2 any additional information we may require
 - 18.3 persons within the entity from whom we deem it necessary to obtain audit evidence
19. With regard to internal controls, there is no indication that we will communicate any significant deficiencies to Vortex (Pty) Ltd.
20. In addition, the letter does not include any reference to the fact that we
 - 20.1 will seek written confirmation of representations made to us during the audit
 - 20.2 will make use of an expert should it be appropriate to do so with the audit of inventory
 - 20.3 will use the work of internal auditors, as appropriate
21. There is no reference to the expected form and content of the auditor's report or that the report may have to be amended in terms of our audit findings.
22. Finally, there is no indication of our reporting duties in terms of section 45 of the Auditing Profession Act 2005.

Question 5.14**40 marks****Comments on question 5.14**

This is a good example of how ISA 300 is rolled out in practice. Remember that there is a difference between an audit strategy and an audit plan. The audit strategy is an overview or bigger picture of how the auditor plans to do the audit. It is like a map when planning for a holiday. The audit plan involves the details of how the audit strategy will be implemented, that is, the scope, timing and direction of the audit. Referring back to the analogy of a holiday, the plan would be the details of what you intend doing on each day of the holidays. For a detailed explanation, refer to *Audit notes*, page 6/10.

This question adds further value because it enables you to reflect on what the audit process entails.

Suggested solution

Planning stage

Timing – April

Reason: As I am unfamiliar with the client, I must gain the necessary understanding of the client so that I can design an appropriate audit strategy and plan and conduct the audit efficiently and effectively within the time constraints imposed by my late appointment to the audit team and the audit deadline.

Work: Understanding the entity/risk assessment procedures

1. Review the permanent current audit files and the audit files of the previous year, for example, to gain an understanding of Gametime (Pty) Ltd's
 - 1.1 ownership and management
 - 1.2 investments and financing
 - 1.3 products, markets, suppliers, etc
 - 1.4 reporting environment
 - 1.5 regulatory framework
2. Review the file maintained by the technical department for information relevant to Gametime (Pty) Ltd, for example:
 - 2.1 General economic factors affecting the company
 - 2.2 Current problems or risks in the company's business sector
3. Have discussions with the audit manager and any members of the audit team of the previous year relating to, for example:
 - 3.1 Unresolved 2012 audit problems
 - 3.2 Relevant legislation/tax issues we should be aware of
 - 3.3 Suitability of planning and performance materiality levels used in the 2012 audit
 - 3.4 Corporate governance-reporting responsibilities
4. Have discussions with the group internal auditors and, where applicable, read their reports to determine, for example:
 - 4.1 Whether they have conducted (or intend conducting) any assignments during the year at Gametime (Pty) Ltd relevant to the external audit
 - 4.2 Their involvement in the financial year-end audit (if any)
 - 4.3 Whether there is anything relevant to our identification and assessment of risk
5. Have discussions with the holding company auditors, for example, to
 - 5.1 confirm the deadline
 - 5.2 establish any changes from the previous year in respect of the audit pack to be submitted
 - 5.3 familiarise ourselves with any expected risks of material misstatement at both financial statement and assertion level
 - 5.4 establish any specific audit requirements
 - 5.5 gain clarity on our corporate governance-related responsibilities
6. Review the corporate governance report of the previous year, including the required sustainability disclosures, to establish what is required of us as external auditors and, if necessary, discuss it with the holding company auditors and the audit team of the previous year (see above).
7. Meet with the firm's computer audit department to discuss their involvement in the EFT controls testing, systems evaluation and computer-related tests.

8. Meet the senior financial accounting personnel to discuss any developments in the company's financial reporting, for example:
 - 8.1 Changes in accounting policies
 - 8.2 Revenue recognition, fair values, etc

Understanding the internal controls at the company

1. Evaluate
 - 1.1 the control environment and other general controls at Gametime (Pty) Ltd
 - 1.2 the company's risk assessment process
2. Review (and update) the system flowcharts to gain an understanding of the financial control system, including the control activities and monitoring thereof. (Where necessary, discuss these with client personnel.)
(**Please note:** The firm's computer audit division could assist here.)
3. Discuss with the computer audit division and Gametime (Pty) Ltd's IT manager
 - 3.1 any significant changes to computerised applications or new hardware
 - 3.2 general controls (and any change thereto)
 - 3.3 any IT risks, for example, information security or dependence on IT

Identifying and assessing of the risk of material misstatement

1. Based on the information gathered, identify and document risk at financial statement level and at account balance level/transaction level.
2. Consider whether there are any **significant audit risks** (risks requiring special audit attention).

Preliminary judgment of planning materiality

1. Taking into account the information gathered and the suitability of the planning materiality limits of the previous year, consider a planning materiality limit for the audit.
2. Quantify the limit by reference to our firm's guidelines, and pre-determined percentages.

Audit strategy and audit plan

1. Formulate and document the overall audit strategy (scope, direction and timing of the audit).
2. Develop an audit plan detailing the nature, timing and extent of procedures to be conducted by amending or redrafting the plan of the previous year.
3. Meet with the audit committee of Gametime (Pty) Ltd to discuss the strategy and plan.
4. Confirm with the holding company auditors that all their requirements are met by the audit strategy and plan, for example, reporting dates and scheduled meetings.

Interim audit

Timing – end of May into June

Reason:

1. Because of the tight audit deadline, as much “routine” audit work as possible should be conducted prior to the year end.
2. As we are required to do a debtors circularisation, it would be sensible to be at the client during a month-end debtors' statement run.

Work:

1. Perform tests of controls on all cycles as necessary, based on audit strategy and plan.
2. Perform the detailed test of controls on the company's EFT system for creditors' payments, as required by the client (in conjunction with CAD).
3. Carry out the comprehensive positive debtors circularisation by incorporating the confirmation letter into the May debtors statement run.
4. Perform substantive tests on as many balances as possible on 31 May, for example, fixed assets, creditors reconciliations, and so forth.
5. Perform any statutory work, including
 - 5.1 initial work on the report on Gametime (Pty) Ltd's corporate governance (and sustainability report if possible)
 - 5.2 a review of the minutes of directors' meetings (may also have been carried out at the planning stage)
6. Perform preliminary work on related-party transactions and the reconciliation of intergroup balances.
7. Review the monthly management reports and minutes of management meetings for indication of any matter requiring audit attention.
8. Resolve any 2012 audit queries.
9. Re-assess the risk of material misstatement.

Final audit

Timing: Mid-July (prior to inventory count) to end of August

Reason: Again, we are governed by the deadline. We need adequate time to

- * prepare for the audit of the final figures
- * follow up on interim audit work, for example, circularisation
- * prepare for and attend the inventory count

Work:

1. Attend the inventory count and perform inventory verification, including verification of movements between inventory count and final year end.
2. Complete work on the debtors circularisation.
3. Perform roll-forward tests (covering the months of June and July) on those account balances verified at the interim date, for example, debtors, fixed assets, creditors, or intercompany (related-party) balances.

4. Obtain a “confirmation of balance” on 31 July from the bank.
5. Obtain confirmation of balances on intergroup accounts from other auditors in the group.
6. Consider any changes in the assessment of the risk of material misstatement.
7. Conduct a going-concern evaluation (you will learn about it in topic 13).
8. Conduct a subsequent events review, even though it is a short period. (You will learn about it in topic 13.)
9. Evaluate any uncorrected misstatements identified during the audit.
10. Agree the IFRS statements to the final trial balance and inspect them for compliance with the IAS, the Companies Act 2008 and the assertions applicable to presentation and disclosure.
11. Complete corporate governance report (disclosures).
12. Review “Other information” in the financial statements for misleading or misstated information.
13. Obtain a management representation letter.
14. Draft the audit report after review of audit working papers.
15. Meet with manager/engagement partner for final quality control review.

4 TOPIC 7: AUDIT EVIDENCE

Question 6.3

15 marks

Comments on question 6.3

This question serves as revision of important concepts that you mastered in the Auditing 200 modules. AUE303R entails practical application of theory. Before you can apply the principles, you must obviously know the theory. If necessary, revise your Auditing 200 modules.

The reason that substantive procedures are necessary is indicated at the end of the solution. This also places AUE303R in context and you will have a better idea of where substantive procedures fit into the bigger picture. Remember that you will not be examined on tests of controls in this module – only on substantive procedures.

Suggested solution

1. The objective of conducting an audit is for the auditor to express an independent opinion of whether the financial statements prepared by the client’s management fairly present the financial position and results of operations of the client. This independent opinion adds credibility to the financial statements.

2. Stating that the auditor gives an opinion on whether the financial statements are presented fairly means that the auditor is not certifying that the financial statements are 100% correct. The auditor cannot "certify" anything because of his/her subjectivity in judging the financial statements and because it is not possible to identify every error or misstatement in the financial statements during the audit process.
3. Despite the above, the auditor must still do his or her utmost to give the right opinion and must carry out procedures that will provide him or her with evidence of whether the financials are presented fairly.
4. In effect, the auditor must examine (audit) the information in the financial statements. In other words, the auditor must audit the **assertions** that management are making in the financial statements. What are these assertions?
5. **Assertions** are the representations that the directors are making in the financial statements. For example, by including a figure of R1 million for inventory in the financial statements, the directors are "stating", representing, or asserting that the company has the **rights** to the inventory, that **all** inventory is included, that the inventory **exists** and that the inventory is fairly **valued**.
6. To determine whether an assertion is presented fairly, the auditor must consider the risk that it is **not** fairly presented. Thus, the auditor carries out **risk assessment procedures** to learn as much as he can about the accounting heading and the assertions related to it. For example, the client may have inventory belonging to another company in its warehouse. There is a risk, therefore, that the client may include inventory, **which it does not own**, in its financial statements. This would result in an inventory balance that is not presented fairly, as the inventory balance will be overstated (valuation assertion) because inventory not owned by the company has been included (rights assertion).
7. As I explained earlier, financial statements are not 100% correct and users understand this. In effect, users are prepared to accept a "margin of error" and are only concerned about possible misstatements in the financial statements, which are material. A material misstatement is one which would influence the decision of a user had the user known about the misstatement. Therefore, the auditor is primarily concerned with the risk of **material misstatement**. For example, the client has inventory reflected in the financial statements at R1 million. When carrying out the **risk assessment procedures**, the auditor discovers that the client does have some inventory belonging to another company in its warehouse but in very small amounts to the value of around R5 000. This would not concern the auditor too much because even if this inventory were included in the financial statements, the balance would not be materially misstated, that is, the misstatement (of a maximum of R5 000 in R1m) would not influence the decision of a user.
8. Once the auditor has identified and assessed the risk of **material misstatement**, he or she will be able to carry out procedures in order to gather evidence to form an opinion on whether the financial statements (which are a collection of management assertions) are presented fairly. To do this effectively and efficiently, the auditor must formulate an **audit plan** that incorporates the nature (type) of the audit procedures to be conducted, the timing (when) of the procedures and the extent (how much) of testing. The procedures conducted after the **risk assessment procedures** are called further audit procedures, and in effect, there will be an audit plan in two parts. Part 1 will be a plan for the **risk assessment procedures** themselves, and part 2 will be a plan for the further audit procedures to be conducted. Until we have carried out part 1 of the plan, we cannot design part 2 effectively!

9. The actions or procedures that the auditor can perform are described as inspection, enquiry, observation, external confirmation, recalculation, analytical procedures and reperformance, and any or all of them could be carried out as a "**risk assessment procedure**" or a "further audit procedure". With regard to further audit procedures, they are classified as **tests of controls** or **substantive procedures**.
10. To understand the difference, you would need to understand that the account balances and totals in the financial statements are the product of the accounting system and its related internal controls. It stands to reason therefore that if the controls within the system, which produces the financial statements, are good, and then the risk of **material misstatement** is reduced. However, the auditor cannot just assume that the internal controls are good, he must test them, and that is, he must carry out **tests of control**. However, these tests do not provide enough evidence of fair presentation because internal control systems are not perfect and may not pick up material misstatements. Therefore, the auditor must seek other evidence to confirm or substantiate the balances and totals in the financial statements. The procedures are called "**substantive procedures**".

Question 6.5

20 marks

Comments on question 6.5

The objective of substantive procedures is to gather sufficient and appropriate evidence of the assertions. In the examinations, you could be required to formulate the substantive procedures for a particular assertion, for example, *valuation*. Therefore, you must know the procedures for each assertion. Refer to the cycles in *Auditing notes* and take note of how the authors set out the procedures below each assertion. This will assist you when learning the substantive procedures.

This question is also revision of concepts that you will apply in the topics that follow. Again, if necessary, revise your *Auditing 200* study material.

Suggested solution

PART A

1. The **valuation** assertion will be affected. Accumulated depreciation and depreciation (expense) will be overstated by the amount of depreciation written off incorrectly. The accumulated depreciation will be netted against the cost of equipment, resulting in the understatement of equipment (PPE).
2. The **rights** assertion will be affected because the PPE amount in the financial records includes equipment that Matchbox (Pty) Ltd does not own. Obviously, the account (and the depreciation expense account) will also be misstated by any depreciation write-offs on the jointing machine.
3. The **existence** assertion will be affected. The account heading includes an item of equipment, which, in the context of the company, no longer exists.
4. The **completeness** assertion could be affected. It is possible that the purchase of the items was recorded in the general ledger but not in the fixed asset register. In this case, no assertion would be affected but the fixed asset register should be updated.

5. No assertion is affected, as it is the appropriate treatment.
6. The **existence** assertion and the **valuation** assertion are primarily affected. As a physical verification may be difficult to carry out, the auditor
 - 6.1 may not be able to gain sufficient acceptable evidence of existence
 - 6.2 will not be able to assess the physical condition of the machines (to establish potential impairments)

PART B

1. 1.1 Occurrence of purchases: Has a valid Hallmark (Pty) Ltd purchase been made or are purchases being made on behalf of others (and paid for) by Hallmark (Pty) Ltd?
 - 1.2 If these invoices are included in amounts still to be paid to creditors, then the obligation assertion relating to accounts payable is at risk.
 - 1.3 If these invoices have been paid and the goods are not for Hallmark (Pty) Ltd, then the **classification** assertion relating to purchases is at risk. Purchases overstated and accounts receivable understated (**completeness**), as the entity for whom the goods were purchased should be raised as a debtor.
2. **Accuracy** of the wage expense and potentially **occurrence** of the wage expense are important assertions, as it appears that a fraud may be taking place.
 - * Overtime errors are all in favour of the wage earner.
 - * Unauthorised overtime is being paid.
3. **Completeness** of sales and the corresponding completeness of accounts receivable: Goods, which were dispatched, have not been raised as a sale and the debtor has not been raised.
4. **Accuracy** (and completeness) of VAT expense payable, and **valuation** of accounts receivable (understated).
5. **Completeness** of inventory.
6. **Completeness** of purchases and accounts payable.
7. **Cut-off** relating to sales, and **existence** of accounts.
8. **Accuracy** of depreciation expense and **valuation** of plant and equipment.

5 TOPIC 8: INTRODUCTION – NO ADDITIONAL QUESTIONS

6 TOPIC 9: SUBSTANTIVE PROCEDURES FOR THE REVENUE AND RECEIPTS CYCLE

Question 8.17

20 marks

Comments on question 8.17

This question illustrates the difference between assertions for classes of transactions and events, and account balances (assets, liabilities and equity). It is crucial that you understand this difference because in the examination, you could be required to formulate the substantive procedures to audit a transaction. If you then give the

substantive procedures for account balances, you will not earn any marks. If you are not sure of the differences, please refer to page 5/23 in *Auditing notes*.

The question is practical, almost as if you are trying to explain some auditing concepts to a fellow auditing student who has not opened a book.

Although this question is part of your revision, without a solid understanding of the concepts, you will encounter difficulties in formulating the substantive procedures for the various cycles.

Suggested solution

1. The junior trainee's understanding is very poor.
2. Accounts receivable
 - 2.1 As accounts receivable is a balance, the assertions relating thereto are rights, existence, valuation and allocation, and completeness. The trainee does not seem to know this.
 - 2.2 **Accuracy** is an assertion that relates to transactions. Although the trainee has identified sales as the underlying transaction for this balance, accuracy does not apply to the accounts receivable balance; it relates to the accuracy of recorded sales.
 - 2.3 The **existence** assertion simply means that the debtors included in the list at year end existed (are not fictitious). It has nothing to do with whether they will pay or not.
 - 2.4 The **obligation** assertion relates to liability balances and not to asset balances.
 - 2.5 **Validity** is not an assertion (in the context of auditing, it is an internal control objective). The trainee is confusing validity with existence.
 - 2.6 The trainee has omitted the following assertions:
 - * **Valuation and allocation:** The balance of R2 631 981 is an appropriate carrying value for accounts receivable. Adequate allowance has been made for bad debt write-offs.
 - * **Rights:** Safe-T (Pty) Ltd has or controls the right of ownership to the accounts receivable (they have not, for example, factored them).
 - * **Completeness:** All accounts receivable that should have been recorded at year end have been included in the balance of R2 631 981.
3. Sales
 - 3.1 "Sales" represents transactions, and the assertions relating to transactions are accuracy, cut-off, classification, completeness and occurrence. The trainee does not seem to know this.
 - 3.2 **Recognition** is not an assertion. It seems that the trainee is muddling the assertions with the accounting standard that deals with when revenue can be appropriately recognised.
 - 3.3 **Collectability** is not an assertion. The "collectability" of credit sales is reflected in the valuation assertion relating to accounts receivable (an assertion he was not aware of).
 - 3.4 **Valuation:** The valuation assertion applies to balances and not to transactions, a distinction he clearly does not understand.
 - 3.5 **Rights:** Again, rights are an assertion relating to the balance reflected on an asset account (e.g. accounts receivable). The likelihood of non-payment is reflected in the valuation assertion applicable to accounts receivable.
 - 3.6 The trainee has omitted the following assertions relating to sales:

- * **Occurrence:** The sales recorded of R9 246 124 have occurred and they pertain to Safe-T (Pty) Ltd.
- * **Completeness:** All sales, which should have been recorded, have been recorded.
- * **Accuracy:** The amounts of the sales have been recorded appropriately.
- * **Cut-off:** Sales have been recorded in the correct accounting period.
- * **Classification:** Sales have been recorded in the proper account.

Question 8.20

25 marks

Comments on question 8.20

This question, illustrating to you how logical auditing is, will build your self-confidence. Often students form a mental block and see themselves failing before they have even written the examination. You should control your mind, however, and remember the following: To begin with, auditing is a human-made process that entails the checking or reperforming of work captured by an accounting clerk! It is neither rocket science nor something supernatural. However, some creative thinking is required on your part. You must first visualise the accounting system, documents involved, the transaction flow, books of prime entry, the general ledger, trial balance and eventually the financial statements. You must then have the assertions in mind – what do you wish to achieve with the assertions, and why do you want to use them. Keeping the accounting system in mind and using the assertions as your objectives or goals, you will be in a position to create powerful substantive procedures to ensure that you will collect relevant and appropriate evidence.

With the above in mind, refer to the solution. Now what is so difficult in agreeing the opening balances, in casting (adding) accounts and in reperforming postings, etc?

Do the following excellent activity: By using *Auditing notes*, refer to each cycle, specifically the substantive procedures as formulated by the authors. Now identify the characteristics (or trend) of the substantive procedures that belong to a specific assertion. Ask yourself why the authors placed that particular procedure to that specific assertion and jot down your reasons. You must work it out yourself. By doing this, you are generating a recipe for yourself for understanding the logic of the substantive procedures. You must actively use *Auditing notes* to be able to master the content of this module.

Suggested solution

1. Agree the opening balance on 1 May with the closing balance on 30 April reflected in the interim working papers.
2. Cast the debtors control account.
3. Refer to responses to the positive debtors circularisation to confirm that no adjustments to the control account arising from the responses to the circularisation were required (none have been made).
4. Reperform the postings from the cash receipts journal, sales journal, goods returned journal and the general journal for the months of May and June.
 - 4.1 Confirm by enquiry of the warehouse manager and goods returned documentation that no goods were returned in May.

- 4.2 Review the (general) journal for the months of May and June to confirm that there are no further entries that should be posted to the control account.
5. Enquire of the financial accountant whether there were any problems with internal control for the underlying systems (e.g. revenue and receipts cycle) during the months of May and June.
6. Discuss the reversal of discount given by Violet Violins CC with the credit controller/financial accountant.
 - 6.1 Confirm that the discount was granted in the first place by reference to the sales invoice and the amount received as well as by reference to the journal entry.
 - 6.2 By inspection of the date of receipt/deposit of the payment, confirm that the amount was paid outside the discount period of 30 days.
 - 6.3 Inspect (if available) correspondence with Violet Violin CC to determine whether it has accepted the reversal.
 - 6.4 Enquire of the financial accountant whether this situation has occurred with any other debtors (i.e. discount granted incorrectly).
7. Obtain the sales invoices making up the sales raised for the period from 25 June to 30 June.
 - 7.1 Cast the invoices.
 - 7.2 By inspection of the dates on the invoice and delivery notes, confirm that the sales were made during the period and not subsequently.
8. Inspect the dates on a **small** sample of material invoices and delivery notes after the cut-off number for the financial year end on 30 June 2013 to confirm that the sale was made after the year end (and therefore was excluded correctly).
9. By scrutiny of the June bank statement, confirm that no deposits (receipts) from debtors were made between 24 June and 30 June.
10. Request that the amount of R72 400, raised as a sale to Wonder Pianos (Pty) Ltd, be reversed.
 - 10.1 No sale has been made and an order has not yet been received. This amounts to a contravention of the revenue recognition standard.
 - 10.2 The matter should be recorded in the working papers and the adjusting journal entry vouched once it has been passed.
11. Select a small sample of the debtors who make up the R100 000 (May and June) of discount allowed.
 - 11.1 Confirm by enquiry of the financial manager that they are entitled to such discount.
 - 11.2 By inspection of dates of invoice and date of payment, confirm that the conditions have been filled.
 - 11.3 Reperform the discount calculation.
12. Inspect correspondence with the liquidator of Chellos (Pty) Ltd to confirm that the company has been placed in liquidation.
 - 12.1 If the full amount owed by Chellos (Pty) Ltd prior to the write-off was greater than R15 200, request and verify evidence that a liquidation dividend is expected (e.g. notification from the liquidator).

13. By reference to working papers on collectability of debtors at year end, confirm that no other amounts should be written off.
14. Obtain a list of debtors on 30 June 2013 in terms of the debtors ledger/masterfile and agree the control account balance with the list.
15. Agree the balance of R1 957 819 with the trial balance on 30 June 2013.

7 TOPIC 10: SUBSTANTIVE PROCEDURES FOR THE ACQUISITIONS AND PAYMENTS CYCLE

Question 10.17, part 1

20 marks

Comments on question 10.17

The same reasoning, which was used in the previous question, applies here. It is just a different cycle. Know your assertions and ask yourself *what* do I, as the auditor, want to achieve with them, *why* do I want to achieve this and *how* will I go about applying the assertions.

Suggested solution

Part 1 (a)

The “obligation” assertion in respect of trade creditors and accruals represents that the company actually owes all amounts included in the balance, that is, they are not the obligations/debts of any other person or entity.

Part 1 (b)

Valuation

1. Agree the list of individual creditors balances and list of accruals on 28 February 2013 with the balances on the creditors control account and “accruals” account respectively.
2. Agree the total of the accrual account and the creditors control account with the trial balance.
3. Reperform casts of the creditors control account, accruals account and the corresponding lists.
4. Identify any debit balances on the creditors list and establish the reason therefor (if necessary, request that any material balances be transferred to debtors.)
5. Select a sample of creditors (including Out 'n About (Pty) Ltd’s major customers) and reperform the creditors reconciliations on 28 February 2013.
 - 5.1 Agree opening and closing balances on the reconciliation with the creditors list/creditors account and creditors statement respectively.
 - 5.2 Test the logic of the reconciliation.
 - 5.3 Reperform the casts.
 - 5.4 Inspect the supporting documentation and confirm, by enquiry and confirmation, the validity of the reconciling items.

6. Agree amounts recorded on the accrual list with supporting documentation, invoices, etc, and reperform any calculations.

Completeness

1. Compare the list of creditors on 28 February 2013 with the corresponding list on 28 February 2012, to identify
 - 1.1 creditors on the 2012 list, who do not appear on the 2013 list
 - 1.2 creditors' balances that are significantly smaller on 28 February 2013

and by enquiry and inspection, determine the reason.
2. For all goods received notes (GRNs) appearing on the "list of unmatched GRNs at year end", confirm that a liability has been raised at year end by inspection of the journal entry.
 - 2.1 Confirm that the amounts raised as creditors are correct for each GRN by inspection of the corresponding supplier invoice (if available), or
 - 2.2 where no invoice is available, by inspection of price lists or the purchase order, or by enquiry of the supplier
3. Select a sample of **material** purchases from the purchase journal for March and trace it to the GRN for each purchase selected to confirm that
 - 3.1 the GRN number is greater than the GRN "cut-off" number
 - 3.2 the dates on the GRN and supplier delivery note are **after** the final year end
4. Select a sample of large payments from the cash payments journal for March and, by inspection of the GRN and delivery notes, confirm that, where the payment relates to goods received or services rendered **prior** to year end, the corresponding amount was raised as a creditor at the financial year end.
5. Inspect the working papers relating to the annual inventory count to identify instances of physical inventory exceeding recorded inventory, that is, inventory received prior to year end, but not recorded (goods received but liability not raised).
6. Inspect the creditors' correspondence file for correspondence relating to unsettled disputes with suppliers, and discuss the need for adjustment with senior personnel.
7. Inspect the working paper relating to the results of creditors' reconciliation procedures to establish how disputed amounts are treated.
8. Inspect the creditors control account for any unusual debit entries.
9. Compare the client-prepared list of accruals on 28 February 2013 to the list of 2012 for any noticeable omissions or understatements and if necessary, obtain explanations.
10. Inspect the general ledger expense accounts for regular periodic expenditures to confirm that, say, 12-monthly charges have been raised, for example, rent, lease payments, lights and water, etc.
11. Enquire of the financial accountant whether suppliers of services have been raised as creditors (that is, there is no delivery note or goods received note).
12. Include a reference to the completeness assertion for trade creditors and accruals in the management representation letter.

8 TOPIC 11: SUBSTANTIVE PROCEDURES FOR THE INVENTORY AND PRODUCTION CYCLE

Question 11.17

40 marks

Comments on question 11.17

This question covers important principles that have been discussed in the previous comments.

Suggested solution

a) Completeness of inventory

1. At the inventory count
 - 1.1 While attending the year-end inventory count, select a sample of books (title, author, ISBN number and quantity) from all categories of books stored in the warehouse.
 - 1.2 Then trace each title selected in the sample to the inventory sheets (agreeing details and quantity) to confirm that the title has been correctly included.
 - 1.3 Inspect the inventory sheets to
 - * ensure that all inventory listed was counted, for example, an amount in the quantity field
 - * confirm by, for example, sequence testing that all inventory sheets were included in the valuation of inventory

Please note: If inventory is valued using the inventory masterfile (which is likely), a small completeness test of inventory sheet to masterfile should be performed.
2. Cut-off
 - 2.1 In the period following the inventory count, obtain all the goods received notes for deliveries made to Bookbox (Pty) Ltd on Friday, 29 July 2013 and Saturday, 30 July 2013, and prepare a schedule of titles and quantities received on those days.
 - 2.2 Once the final inventory sheets are available, confirm by inspection that these deliveries have been included in the inventory on 31 July 2013. (Please note: A similar exercise will be performed on books sold on 29, 30 and 31 July, but this is not a completeness test.)
3. Imported books
 - 3.1 By inquiry of Barry Potter and inspection of orders/import documentation, confirm that any orders for which the risks and rewards of ownership have passed to Bookbox (Pty) Ltd on 31 July 2013, but which have not yet been received (as they are in transit, for example) or which are kept in a clearing warehouse, are included in the year-end inventory figure.

b) Valuation

Masterfile accuracy

1. Compare the quantities of a sample of titles on our (auditor's) copy of the inventory sheets/working papers to the final masterfile in order to confirm that no amendments have been made.
2. Using the audit software, scan the entire inventory masterfile for

- 2.1 any missing fields
 - 2.2 any negative quantities
 - 2.3 any titles with negative quantities and negative unit costs
 - 2.4 duplicate records/ISBNs
3. Using the audit software, reperform the quantity x unit cost calculation (for each title) and compare the result to the amount in the value field of the masterfile in order to identify differences. (None should be found, but errors must be followed up.)
 4. Confirm that all damaged inventory identified at the inventory count (by the audit team) is included in the authorised masterfile amendments passed to correct the inventory quantities at year end.

Pricing

5. Using the audit software, select a sample of titles from publishers both local and foreign.
6. For local purchases, trace the titles selected to the relevant publisher's invoice, to confirm that the correct unit price has been used in the inventory masterfile.
 - 6.1 As the company uses FIFO as its cost formula, inspect – where the quantity on hand exceeds the quantity purchased according to the most recent invoice – the invoice(s) prior to the most recent invoice in order to confirm the unit prices used.
 - 6.2 Where carriage inward costs have been included in the unit costs, agree amounts with transport invoices and evaluate the method of allocation of the total carriage inward cost according to the various titles, for accuracy and reasonableness.
7. For purchases from foreign publishers
 - 7.1 trace the titles selected to the relevant supplier's invoice in order to obtain the unit cost in the foreign currency
 - 7.2 determine, by enquiry of Barry Potter and scrutiny of the purchase agreement/shipping documents, the date of transaction and obtain (from a financial institution) the relevant foreign exchange rate at the date of the transaction
 - 7.3 reperform the conversion calculation and agree it with the amount used in costing the title
 - 7.4 confirm, by inspection of the shipping agent's invoices, that import duties, custom duties and shipping charges used in arriving at the cost of the title are correct.
 - 7.5 confirm, by inspection and reperformance of the company's costing of imported inventory, that the costs referred to in 7.4 are appropriately allocated (accurate and reasonable) to the titles imported

Lower of cost or net realisable value

8. Using the audit software, compare the unit cost field to the selling price field for all titles, to identify any instances where cost exceeds the selling price. (None should be found, but any instances should be followed up.)
9. For a sample of titles, verify the selling price reflected in the inventory masterfile by reference to
 - 9.1 sales price lists
 - 9.2 the most recent sales invoice for the title
10. Compare the selling price of a sample of invoices in the post-balance sheet period to the unit cost in the masterfile of the titles sold in order to confirm that the net realisable value exceeds the unit cost.

11. Perform an overall analytical review of inventory, comparing the value of inventory on 31 July 2013, to inventory on 31 July 2012, for example:
 - 11.1 Total inventory
 - 11.2 Inventory by category (audit software can be used to determine value by category)
 - 11.3 Inventory as a percentage of total assets, and current assets

c)

1. By reference to working papers of the previous year and discussion of the process for determining the write-down, evaluate whether they are
 - 1.1 consistent with previous years
 - 1.2 appropriate for the business
2. Enquire of management whether any specific events have occurred which might have a direct effect on the write-down, for example, the banning of a particular title or sales suspended due to copyright infringements.
3. Using our audit software, extract from **our** audit copy of the inventory masterfile a listing of all titles for which the date of last sale is prior to 1 November 2012 (9 months), **and** for which a number appears in the "quantity on hand" field.
4. For these titles
 - 4.1 calculate the total quantity of units (books) to be placed on the clearance sale by totalling the quantity on hand field
 - 4.2 calculate the total write-down prior to adjustment for unsold books by multiplying the unit cost price, reduced by R50, by the quantity of units on hand for each title, and totalling the result (unit cost – R50) x quantity
5. To confirm that the write-down has been correctly increased for the donation of the unsold books
 - 5.1 extract the total number of books sold on the clearance sale from the inventory clearance invoices, deduct it from the total number of books initially written down (see 4.1 above), and multiply the result by R50. This will give the amount by which the original write-down must be increased.

The total write-down thus calculated should be compared to the client's write-down and any difference resolved.

6. Using the audit software, extract a list of all titles with a high "quantity on hand": "quantity sold year to date" ratio. For example, there are 200 copies in the inventory and only 30 have been sold during the year. Discuss each of these titles with management to establish whether they should be written down.
7. Perform an analytical review of the write-down, for example:
 - 7.1 By comparison to write-downs of previous years
 - 7.2 The current year write-down per category (easily done using the audit software), compared to previous years
 - 7.3 The write-down as a percentage of inventory, compared to previous years
8. Discuss with Barry Potter the approval process for the write-down, for example, whether the write-down is reviewed independently and authorised at a high level.
9. In the management representation letter, include a specific reference to the adequacy of the write-down for slow-moving inventory.

9 TOPIC 12: SUBSTANTIVE PROCEDURES FOR THE FINANCE AND INVESTMENT CYCLE

Question 12.14

14 marks

Comments on question 12.14

No additional comments are provided. Again, I think we have addressed the issues adequately in the previous comments.

Suggested solution

a)

1. Occurrence, rights and obligation: Disclosed events, transactions and other matters have occurred and they pertain to the entity.
2. Completeness: All disclosures, which should have been included in the financial statements, have been included.
3. Classification and understandability: Financial information is appropriately presented and described, and disclosures are clearly expressed.
4. Accuracy and valuation: Financial information and other information are disclosed fairly and at appropriate amounts.

b)

1. A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

OR:

2. A present obligation that arises from past events but which is not recognised (as a liability) because
 - * it is not probable that an outflow of resources be required to settle the obligation
 - * the amount of the obligation cannot be measured with sufficient reliability.

c)

A provision is a liability of uncertain timing or amount, and a liability is a **present** obligation arising from a past event. A contingent liability is a **possible** (it will only be confirmed by the occurrence or non-occurrence of a future event) obligation that arises from a past event. The essential difference is the level of certainty of the event.

d)

1. Occurrence, completeness and obligation
 - 1.1 Confirm, by enquiry of management, scrutiny of legal correspondence (attorney's schedule of litigation and claims), and scrutiny of minutes, that
 - * a possible obligation that pertains to Backstop (Pty) Ltd has arisen (occurrence)
 - * the obligation pertains to Backstop (Pty) Ltd (obligation) and not to another entity
 - * no other similar claims for other contingent liabilities should be included (completeness)

2. Classification
 - 2.1 Determine, by scrutiny of the case details (and by obtaining legal opinion if necessary) and based on the facts, whether only a **possible** obligation as opposed to a **present** obligation existed at the balance sheet date. This will confirm that a contingent liability is the appropriate treatment (classification), and not a provision.
 - 2.2 By careful evaluation of the wording of note 20, determine whether the matter has been expressed clearly. (It has, but it could perhaps have been improved by the inclusion of the company attorney's opinion of the merits of the case and whether the company may be able to claim on insurance should it lose the case.)
3. Accuracy and completeness
 - 3.1 Confirm, by inspection of the claim correspondence, etc, that the amount of the claim is R800 000 (accuracy) and that **all** pertinent details have been included (accuracy and completeness).

Question 12.18 (d)

20 marks

Comments on question 14.18(d)

No additional comments are provided. Again, I think we have addressed the issues adequately in the previous comments.

d) General

1. Inspect the Memorandum of Incorporation to determine whether there are any clauses/requirements relating to the making of loans, for example, that directors may be prohibited from making loans.
2. Obtain written confirmation from each of the directors that neither they nor their families have any financial interest in any of the loans.

Occurrence, accuracy, cut-off and classification – loan transactions

1. Obtain the loan agreement for each of the ten loans and, by inspection
 - 1.1 confirm that the names of the borrowers agree with the schedule
 - 1.2 confirm the term of each loan (5 years) and the interest rate (5%)
 - 1.3 confirm that the amount of each loan agrees with the schedule (and does not exceed R250 000)
 - 1.4 confirm that no security has been given for the loans
 - 1.5 determine whether there are any other important clauses, for example, what happens in the event of non-payment of the annual interest
2. Inspect the minutes of directors' meetings to confirm that authority was given for each loan.
3. Inspect payment records, for example, paid cheque, EFT payment advice, or bank statements, for proof that payments were made to the entity listed on the schedule.
4. Confirm, by inspection of the dates on the supporting documentation, that the loans were granted and recorded in the correct accounting period.
5. Trace the postings of the loans from the cash payments journal to the general ledger to confirm that they have been allocated to the correct accounts.

Accrued interest – accuracy

1. Confirm, by inspection of the loan agreement, that the dates at which the loans were granted agree with the schedule.
2. Recompute the accrued interest using the stipulated 5% rate.
3. Agree the total accrued interest (R45 519) according to the schedule with the general ledger.

Closing balance – valuation, completeness, and rights

1. Cast the “Loans made to external entities” schedule provided by Lewis Figo and the ledger account.
2. Agree the loan total on the summary with the general ledger.
3. Obtain confirmation of the amount of the loan directly from the borrower (particularly for the R250 000 loans).
4. Inspect the correspondence from the liquidator of Savuka Enterprises to confirm that no liquidation dividend will be paid.
5. Establish, by discussion with Lewis Figo, whether there is any need to provide for the non-repayment of any of the loans, for example, notification that the entity is in financial trouble, non-performance by the entity, or in respect of its role as a supplier to The Office (Pty) Ltd.
6. Obtain written confirmation/representation from the directors that
 - 6.1 the company has not ceded its right to the long-term debt (rights)
 - 6.2 no loans other than those appearing on the schedule have been made (completeness)
7. Inspect the bank confirmation to ensure that long-term debtors (loans) have not been ceded (rights).

10 TOPIC 13: THE COMPLETION OF THE AUDIT

Question 14.11

15 marks

Comments on question 14.11

The completion of the audit is a very important topic. I understand that students sometimes run out of time during their preparations for the examinations and then simply leave out this topic and the topic on reporting. That is a very dangerous strategy, as these topics are frequently covered in the examinations.

This question requires you to study ISA 570 to test your understanding of the concepts.

Suggested solution

1. The adoption of the going-concern assumption means that the directors (and users) view the entity as being able to continue in business for the near future **and** that assets and

liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

2. The objectives are to
 - 2.1 obtain sufficient appropriate audit evidence about the appropriateness of the directors' use of the going-concern assumption in the preparation and presentation of the financial statements
 - 2.2 conclude, based on the evidence obtained, whether a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern
3.
 - 3.1 No. Going concern is not an assertion in terms of ISA 500 – Audit Evidence. It is a basis for the preparation for financial statements. In a sense, the directors are “asserting” (representing) something (the ability of the company to continue in business).
 - 3.2 Adoption of the going-concern approach will have an effect on some of the assertions, for example, that inventory is usually valued at cost on the assumption that the company will sell the inventory. However, if the company is to cease trading, then its net realisable value is more likely to be the value (NB: Inventory is valued at **lower** of cost or net realisable value.)
4. No. The auditors (and directors) cannot guarantee future events and conditions. A going concern is about predicting the future and nobody can guarantee the future.
5.
 - 5.1 No. The risk assessment stage is not the only “stage” during which the auditor considers the going concern.
 - 5.2 The auditor considers the going concern at all stages of the audit. In paragraph 11, it is stated that the auditor shall “remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern”.
 - 5.3 The auditor will consider the going-concern principle right up until the signing of the audit report (as a subsequent event procedure).
6.
 - 6.1 Yes, it is. The auditor himself must obtain sufficient appropriate evidence to express an opinion on the financial statements. It is not simply a matter of taking the directors' word for it because they have done the assessment.
 - 6.2 Of course, where the directors have performed an assessment, the auditor will discuss the assessment with the directors as part of the evidence gathering process.
7. A mitigating factor is a fact or circumstance that “supports” the adoption of the going-concern assumption, particularly when a significant uncertainty exists which casts doubt on the company's ability to continue as a going concern.
8. Modified report – adverse opinion (the financial statements **do not** present fairly).

11 TOPIC 14: REPORTING AND THE AUDITING OF SMALL ENTITIES

Study unit 14.1: The auditor's report

Question 15.11

15 marks

Comments on question 15.11

Reporting is the final product of the auditor's hard work. In fact, it should motivate you to work hard and complete your academic and training requirements so that you too can sign your *own* auditor's report one day!

Students tend to perform badly in audit reporting questions, and this is normally the most important contributing reason for failing the examination. Unfortunately, the auditor's report requires some memorising on your part.

In the examination, you will not be required to write the whole report. We will provide you with a report containing errors that you will have to identify. Another method could be to require you to formulate certain paragraphs of the report, for example, to write a paragraph on the basis of opinion or on the opinion itself. This question is a good example of the question that could be asked in the examinations.

It means that you will have to know the content of the auditor's report very well. In your SAICA Handbook, excellent examples of auditors' reports are provided (SAAPS 3 [revised]).

On pages 18/5 to 18/9 in *Auditing notes*, the reporting principles are explained very well, so please study these sections.

Suggested solution

Independent Auditor's Report

To the shareholders of Mainline Ltd

Report on the financial statements

We have audited the financial statements of Mainline Ltd set out on pages 16 to 35. These financial statements comprise the statement of financial position as at 28 February 2013, the statement of comprehensive income, the statement of changes in equity, and the statement of cash flows for the year then ended, as well as the notes comprising a summary of significant accounting policies and other explanatory information.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Mainline Ltd as at 28 February 2013 and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards and the requirements of the Companies Act 2008 of South Africa.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 26 to the financial statements. As explained in the note, the possibility exists that new regulations pertaining to the road transport of hazardous chemicals will be introduced. As explained, these regulations could have a material effect on the company's operations.

Other matter

Without qualifying our opinion, we draw attention to the fact that the supplementary information set out on pages 36 to 40 does not form part of the financial statements and is presented as additional information. We have not audited these schedules and accordingly, we do not express an opinion on these reports.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 28 February 2013, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports, we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Ryder Hejerdal

Ryder Hejerdal
Partners: Evans and Cavendish
Registered Auditors
13 Box Way
Durban
18 April 2013

Question 15.14

12 marks

Comments on question 15.14

Although the detailed requirements of a reportable irregularity are not part of the AUE303R syllabus, it is certainly important to know how it may be integrated with reporting. Part b of this question illustrates this well.

Suggested solution

a) Independent auditor's report

To the shareholders of Bluevision (Pty) Ltd

Report on the financial statements

We have audited the financial statements of Bluevision (Pty) Ltd set out on pages 16 to 42. These financial statements comprise the statement of financial position as at 28 February 2013, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Opinion

In our opinion, the financial statements present fairly in all material respects the financial position of Bluevision (Pty) Ltd as at 28 February 2013 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and the requirements of the Companies Act 2008 of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 28 February 2013, we have read the Directors' Report for identifying whether there are material inconsistencies between this report and the audited financial statements. The report is the responsibility of the directors. Based on reading the report we have not identified any material inconsistencies between the report and the audited financial statements. However, we have not audited the report and accordingly do not express an opinion on the report.

Report on other Legal and Regulatory Requirements

In accordance with our responsibilities in terms of sections 44(2), 44(3) and 45 of the Auditing Profession Act, we report that we have identified certain unlawful acts committed by the directors of Bluevision (Pty) Ltd. These unlawful acts constitute a reportable irregularity in terms of the Auditing Profession Act. We have reported the matter to the Independent Regulatory Board for Auditors. The matters pertaining to the reportable irregularity are described in note 10.

The directors have responded to the circumstances and the conduct in question to such an extent that we believe that no further loss will be suffered by the parties identified in note 10 and that all amounts including penalties have been accounted for. The unlawful act described in note 10 is, to the best of our knowledge, no longer occurring.

Rudolf Strydom

Rudolf Strydom
Registered Auditor
13 Rooiplaat Road
Pretoria
13 May 2013

b)

1. This situation amounts to the continuation of the reportable irregularity and the audit report will have to reflect this.
2. In terms of section 44 of the Auditing Profession Act, we may not give an unqualified (unmodified) opinion unless we are satisfied that no reportable irregularity had taken place. We are not satisfied.
3. The qualification will be based on our disagreement with the disclosure in, and adjustment to the financial statements because as they stand, the financial statements do not “present fairly”.
4. A paragraph on the “basis for qualified (adverse) opinion”, explaining the scheme and the lack of disclosure/adjustment will have to be added.
5. The standard opinion paragraph will have to be amended to reflect either an “except for” or “adverse” opinion, depending on the pervasiveness of the matter.
6. The following paragraph will have to be added:

Report on Other Legal and Regulatory Requirements

In accordance with our responsibilities in terms of sections 44(2), 44(3) and 45 of the Auditing Profession Act, we report that we have identified certain unlawful acts, committed by the directors of Bluevision (Pty) Ltd, which constitute a reportable irregularity in terms of the Auditing Profession Act and we have reported the matter to the IRBA. We have also submitted the additional report to the IRBA in terms of section 45(3) indicating that, in our opinion, the reportable irregularity is continuing. The matters pertaining to the reportable irregularity have been described in the report above.