



PAMIBIA UNIVERSITY OF SCIENCE AND TECHNOLOGY



UNIVERSITY OF JOHANNESBURG
DEPARTMENT OF ACCOUNTANCY
AUDITING 300/BCTA – 2018

**FINAL SUPPLEMENTARY ASSESSMENT OPPORTUNITY
JANUARY 2019**

FIRST EXAMINERS: MS W GERTZE
MS M DIKUUA
MS P RAMA
MS K DEMPSEY

READING TIME: 38 MINUTES
WRITING TIME: 188 MINUTES

SECOND EXAMINER: PROF B MARX

MARKS: 125

EXTERNAL EXAMINER: MS I NEL

INSTRUCTIONS:

1. This paper consists of **THIRTEEN** pages (**including** the required) (scenario consist of **10 pages** and the required consists of **3 pages**). If your paper does not contain all the pages, please put up your hand so that a replacement paper can be handed to you.
2. Answer all the questions.
3. Answer each question on a **separate folio**. Please refer to the paper for the correct colour.
4. Calculate the **reading time** that you should spend on each question by multiplying the number of marks for each question by **0,3** to determine the time, in minutes, available for each question. You may make notes on your question paper during the reading time, but may not write in your answer booklet.
5. Calculate the **writing time** that you should spend on each question by multiplying the number of marks for each question by **1,5** to determine the time, in minutes, available for each question.
6. Delete **all** (even single open lines) open spaces on your answer sheets with pen. Pages on your answer sheets that contain open spaces will be marked as such and those pages will not be eligible for a remark.
7. No tippex or pencil may be used on your answer sheets. Pages on your answer sheets that contain pencil or tippex will be marked as such and will not be eligible for a remark.
8. All the examination regulations of UJ and the policy document for students of the Department of Accounting will apply during this assessment.
9. Keep this paper for your record purposes.
10. The neatness, disclosure and presentation of your answers will be taken into account when marking your paper.
11. Read questions carefully, if you need to provide explanations you should always use full sentences, refrain from simply naming facts.
12. **The question paper and scenario should be handed in after the assessment**

QUESTION 1**(49 MARKS)****THIS QUESTION CONSISTS OF THREE UNRELATED PARTS****PART A:****(39 MARKS)**

You have acquired a new audit client, Polokwane Transport (Pty) Ltd (hereafter PTL), and are busy finalising the audit for the period ended 30 November 2018.

The company operates a fleet of transport trucks from of Polokwane and also has a sales division where they trade in the truck spare parts in the Polokwane area. Their primary market is the farms in the Polokwane area. The company recently implemented a fully computerised sales system at all their branches for the sale of truck spare parts.

As part of your audit work for the 2018 reporting period, you have compiled the following working papers:

Work Paper Reference	Work Paper Description	Page
P101	Understanding the computerised environment of PTL: Online Sales System	3
S100	Gaining an understanding of PTL's going concern	4

Client: Polokwane Transport (Pty) Ltd	Period end: 30 November 2018	P101
Prepared by: S Noche	Date: 5 December 2018	
Reviewed by:	Date:	
Understanding the computerised environment of PTL: online sales system		

The online sales system of truck spare parts:

The primary input medium of the computerised system is an online sales system, which was implemented at all branches. This online sales system interfaces with the stock masterfile, sales file, sales commission file and debtors' masterfile.

The customers place their order with the salesmen who then enters the information directly onto the sales system. The salesmen enters the following information: date, branch code, salesman code, credit and debtor number in case of a credit sale and in the case of a cash sale, the quantity and unit price.

The computer automatically calculates the total value of the order and adds the required sales tax. The sales system prints the invoice in triplicate, of which one copy is handed to the customer together with the goods. The other copies are kept by the salesmen and sent to head office at the end of each day for filing.

All transactions are saved on magnetic discs, which are updated to the stock masterfile, sales file, sales commission file and debtors masterfile every evening. After this update a printout of the daily sales, as well as other management reports such as sales per branch and salesman, for the day and month-to-date, sales analysis, and various other reports are produced. After the update the magnetic discs are cleaned, and the next day's transactions are recorded thereon. The debtors' accounts are printed and sent out monthly.

Client: Polokwane Transport (Pty) Ltd	Period end: 30 November 2018	S100
Prepared by: S Noche	Date: 10 December 2018	
Reviewed by:	Date:	
Gaining an understanding of PTL's going concern.		

You are currently completing the audit of PTL and in the process of assessing the going concern status of the company. You have obtained the following information:

The trucks of PTL are old and have been declared un-roadworthy and as a result the company's license to operate them will probably be withdrawn. The company will cease to operate as a consequence of the withdrawal.

The Directors tried to convince you that if financing is obtained and if the necessary repairs to some trucks are undertaken and if other trucks are replaced the company's license will not be withdrawn. They say that business will then improve and the company will become viable. They produced a future cash flow forecast to substantiate their claims.

PART B**(10 MARKS)**

You are a first-year trainee accountant at Number Crunchers Inc. ('Number Crunchers'). You are part of the audit team of Mzansi Gas ('Mzansi-Gas'). Mr Nhlakanipho Zulu is the engagement partner on the 31 December 2018 financial year-end audit of Mzansi Gas.

Company Background

Mzansi-Gas is a leading company on the African continent as far as its use of gas-to-liquid technologies is concerned. The company operates four highly sophisticated and integrated plants and is listed on the Johannesburg Stock Exchange. During 2018 the company bought and occupied a new head office building in an upmarket business park in Midrand from where the company is managed and controlled.

Mzansi-Gas has a natural gas plant in Mossel Bay where liquefied natural gas is produced from natural gas that is extracted from underneath the seabed, and purified and cooled until it changes to a liquid form.

During 2014 Mzansi-Gas appointed consultants to conduct a due diligence investigation and feasibility study into the production of and demand for ammonia-based fertilisers and explosives in Africa. As a result, Mzansi-Gas acquired full ownership of a fertiliser plant as well as an explosives plant in eMalahleni, Mpumalanga, on 1 May 2017. These acquisitions were made as a single business purchase transaction, and on the acquisition date it was correctly determined in terms of IFRS 3 *Business Combinations* that there was no amount to be allocated to goodwill.

Since making these acquisitions, Mzansi-Gas has used all ammonia produced at its existing ammonia plant, also located in eMalahleni, for the production of fertiliser and explosives at the plants acquired. There is an active market for ammonia.

Mzansi-Gas Board of Directors' meeting held on 3 January 2019**Extract from the minutes**

The Chief Operating Officer made a presentation about the reasons for the poor performance of Mzansi-Gas's eMalahleni fertiliser business in 2018. She explained that due to the momentum gained by global activists that demand healthy and safe human and animal food, many leading South African food producers have switched to organic farming methods. As a result they cancelled their annually renewable purchase contracts with Mzansi-Gas during 2018. This caused sales of the chemical fertilisers manufactured by Mzansi-Gas to decrease drastically during the past year.

In response, Ms Alicia van der Walt, the Chief Executive Officer (CEO) of Mzansi-Gas and a CA (SA), requested that the Directors remain positive about the future outlook for Gas-to-Liquid's fertiliser business. She explained that she was personally investigating the possibilities of Mzansi-Gas investing in the manufacture of organic fertilisers in the near future to make up for the loss in demand for the chemical fertilisers manufactured by the company.

She noted that she has taken the liberty to share full details of the company's business and its most recent internal management accounts with two South African business innovation consulting firms that specialise in the chemical industry as well as with her brother, Mr John Streng, who is an international activist and local CEO of Eating Green. Eating Green, an international organisation that establishes standards for organic farming, assesses all seed and organic fertiliser produced and sold in South Africa for adherence to its standards. Eating Green then issues a certificate of compliance, if approved. She apologised that she had been so busy that she did not have a chance to disclose her discussions with her brother until that day.

The Board of Directors resolved that no impairment test in respect of the fertiliser plant was required based purely on Ms van der Walt's recommendation since she did not identify any impairment indicators.

QUESTION 2

(71 MARKS)

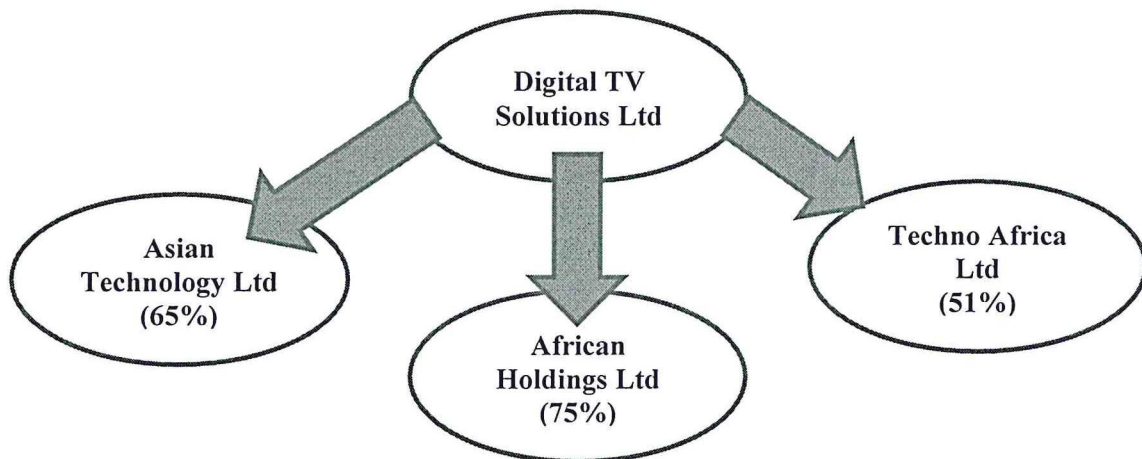
You are currently an Audit Manager for Hall, Peterson and Associates Inc., a medium-sized auditing firm. The firm has a good reputation amongst its clients, mainly because of its international affiliation with Stanley, Peterson & de Kock, an auditing firm in the United Kingdom.

You are in charge of the audit of Digital TV Solutions Ltd (hereafter DTVS), a company listed in the industrial sector of the JSE Securities Exchange in Johannesburg. Hall, Peterson and Associates Inc. have been the auditors for some years now.

With its leading media and technology assets and skills, the company is well positioned to capitalise on interactive commerce opportunities arising from the convergence of television platforms and the Internet.

Background to the company

The head office of the company operates from a building in Sandton. The company employs a total staff complement of 3000 permanent employees. The company has, through various subsidiaries, investments in African and Asian television operations and interactive technology development. The company's group structure is as follows:



As part of your audit work on the planning for the 2018 reporting period, you have compiled the following working papers:

Work Paper Reference	Work Paper Description	Page
C104	An understanding of the Governing Body structure of DTVS.	7/8
G201	E-mail from Internal Audit Manager: Discussion on key audit matters	9
P101	E-mail from CEO: Discussion on risks	10

Client: Digital TV Solutions Ltd	Period end: 30 November 2018	C104/1
Prepared by: R Martins	Date: 5 December 2018	
Reviewed by:	Date:	
An understanding of the Governing Body structure of DTVS		

Governing Body and Directors

The current Chief Executive Officer (hereafter CEO), Mark Costello, founded the company twenty years ago. Until recently, Costello acted as CEO and Chairman of the Governing Body. Pressure from institutional investors led to the appointment of an additional Director to serve as the Chairman. The company subsequently appointed the CEO's brother in law as Chairman of the Governing Body in 2018.

All Executive Directors have service contracts with the company, ranging from five years and longer. The main reason for the longer service contracts is to attract and retain good people. Governing Body meetings are scheduled to take place every six months, with meetings of the different Governing Body committees taking place on a more regular basis.

The Governing Body is made up as follows:

Non-executive Directors

Jesse Aucamp. A corporate lawyer and the holder of seven other Non-Executive Director positions. His wife is also the Financial Director of the company.

Jerry Makinita, B Eng (Wits). A former employee of the company – he served as Operations Director from 1992 to 2001. Since retiring from the company as an employee, he has acted as Chairman and CEO of a glass and chemicals company.

Dr Thabiso Molefe MBA (Cambridge). Former advisor to the Minister of Telecommunications. He holds eight other Non-executive Director positions.

Alexander Bennet, B Eng (Wits). He is currently also serving as a consultant to the company, an arrangement worth R 250 000 a year. He holds nine other non-executive directorships.

Dr Stephen Kruger. Professor and Dean of the Engineering Faculty of a well-known local university. Chairman of the company, as well as brother-in-law of the CEO, Mark Costello.

Phillip Peterson, CA (SA). Former senior partner of Hall, Peterson and Associates, the auditors of the company since 1997. Peterson was in charge of the audit of Digital TV Solutions until his retirement in 2005.

Client: Digital TV Solutions Ltd	Period end: 30 November 2018	C104/2
Prepared by: R Martins	Date: 5 December 2018	
Reviewed by:	Date:	
An understanding of the Governing Body structure of DTVS		

Executive Directors

Mark Costello, Founder and Chief Executive Officer (CEO) of the company.

Karin Aucamp, CA (SA), Financial Director. She is also serving as a Non-executive Director on the Boards of three major listed companies.

Howard Baker, B Eng (Wits), Operations Director.

Peter Havenga, BA (Stellenbosch), Human Resources Director.

Donald Flynn, B Eng (UJ), Executive Director.

Aqueel Haji, MA (Oxford), Executive Director.

Riaan du Toit, B Eng (Wits), Executive Director.

Kobus Niemann, CA (SA), Executive Director.

Client: Digital TV Solutions Ltd	Period end: 30 November 2018	G201
Prepared by: R Martins	Date: 6 December 2018	
Reviewed by:	Date:	
E-mail from Internal Audit Manager: Discussion on key audit matters		

The audit partner was copied in the following e-mail below that was sent by the Internal Audit Manager of DTVS, Joe Muller, to the fFinancial Manager of DTVS, Ryan Kendall.

<p><i>From: jmuller@DTVS.com</i> <i>Sent: Monday 1 August 2018</i> <i>To: rkendall@DTVS.com</i> <i>cc: raymond.nkosi@HPAssociates.ac.za</i> <i>Subject: Key Internal Audit Findings – Quarter 4: 2018 Financial Period</i></p>
<p>Dear Ryan,</p> <p>Below please find a summary of the findings that my team and I obtained having completed our audit work for the 4th quarter for the 2018 financial period:</p> <p><u>Areas of Concern: Compliance</u></p> <ul style="list-style-type: none"> • We found that the following transactions were executed based solely on resolutions of the Board of DTVS: <ol style="list-style-type: none"> 1. Granting a loan of R 3 million by Asian Technology Ltd to Techno Africa Ltd to enable it to refurbish its premises. 2. Granting a loan of R 4.5 million by DTVS to Mark Costello, in order to enable him to acquire 20% of the issued share capital in ABC Retailers (Pty) Ltd, an unrelated company. 3. Signing of an agreement to sell DTVS's entire shareholding in African Holdings Ltd to ABC Retailers (Pty) Ltd. African Holdings Ltd constitutes a significant part of DTVS's assets. <p>We believe that further procedures are required for these transactions to be in compliance with the requirements of the Companies Act.</p> <p>I would appreciate your views on the above findings.</p> <p>Kind regards</p> <p>Joe Muller</p>

Client: Digital TV Solutions Ltd	Period end: 30 November 2018	P101
Prepared by: R Martins	Date: 6 December 2018	
Reviewed by:	Date:	
E-mail from CEO: Discussion on risks		

From: Costellom@DTVS.com
Sent: 6 December 2018 08:45 PM
To: raymond.nkosi@HPAssociates.ac.za
Subject: Business Risks and Inventory

Dear Audit Manager

DTVS has always performed very well and met customer demand, however we have been struggling to stay abreast of our customers' needs and wants during the current financial year.

This has caused a large amount of dissent in the business and as a result the Board of Directors called an emergency meeting with management. The main item on the agenda for this meeting is a discussion on the financial strain currently experienced by the business.

The severity of this strain only came to the Board's attention when the Chief Financial Officer mentioned that there was a pending law suits against DTVS. The lawsuit came about due to the WiFi connection devices that DTVS supply to their customers on their Ultimate Wireless Internet Solution package that have all proven to be faulty with some of the devices overheating dramatically that they start to melt. The legal team is in the process of quantifying the possible exposure for DTVS and assessing the likelihood of the successful outcome of the claims.

The Operational Management Team suggested that the WiFi devices be replaced immediately, with no cost to the client. New replacement devices have to be ordered from their Asian division. The supplier has informed the Asian branch that the lead time for manufacturing and delivery is 6 to 8 weeks.

The company secretary suggested that the issues raised during this special meeting be properly discussed and minuted at the risk committee meeting later in the month and asked you as the external auditors to join this specific risk committee meeting.

Would you also make sure that your team performs the necessary audit procedures to address the replacement of the WiFi devices as well as the new purchase of devices from the supplier in Asia.

Kind regards

M Castello

CEO Digital TV Solutions Ltd