

a) Based on the information provided in sections 1 to 3, describe the risks of material misstatement for the consolidated financial statements of the MultiStar Ltd group as follows:	
i) At financial statement level	
Listed on JSE	
MultiStar is listed on the JSE and there is a risk that MultiStar doesn't adhere to the additional disclosure requirements as set out by the JSE.	1
Risk that the revenue is overstated and expenses is understated to meet market expectations especially in the light of there being risk that going concern assumption may be at risk.	1
Group of companies	
Risk that inter-company balances and transactions are not eliminated during consolidation.	1
Risk that related party transactions not treated at fair value and arm's length/correctly disclosed;	1
The related party relationships/transactions/balances may not be disclosed/not disclosed in terms of IAS 24 for example payment of royalties in exchange for sport channels; rental of previous head office building.	1
The JSE proactive monitoring report	
Risks that disclosure for the FY2021 is not sufficient in the current year financial statements with specific reference to related parties and judgement and estimates.	1
The JSE proactive monitoring report will only be discussed at the next board meeting and the risk arises that they will not be able to correct these issues for FY2021 as the next board meeting is only scheduled for 30 November 2021.	1
King IV concerns	
Corporate governance concerns , indicating management's lack of integrity and consequently a weak control environment resulting in possible fraud and or errors in the financial statements arises due to the following:	1
The classification of John Gunter is not appropriate as being 'non-executive' – as spending more than 50% on his time on the operations of MultiStar will rather deem him to be 'executive which provides an opportunity to manipulate the financial statements. Therefore the majority of the board doesn't consist of independent NED.	1
As there is effectively only 2 available INED, the composition of the rest of the committees will also be an area of concern, further increasing the risk.	1
Directors & key management remuneration largely based on performance & share price growth and the risk exists that they have incentives to overstate profits & assets.	1
King IV P14 provides that remuneration for directors should include performance measures that support positive outcomes across economic, social and environmental context. The remuneration is however based primarily on financial performance (profit target, share price movements etc.) The raises concerns about the commitment towards sound corporate governance practices in terms of remuneration of directors..	1
Knowingly non-complying with legislation (see below) raises further concerns about MultiStar being a responsible corporate citizen and increase the risk about weak corporate governance.	1
Non-compliance with laws and regulations	
There is possible non-compliance with the Broadcasting Act no 4 of 99 requiring 30% of streaming content to be local. The non-compliance with this legislation and acknowledgement of directors of the non-compliance, raises concerns about the governance structures and to what extent they will engagement in fraudulent financial reporting.	1

Commented [EG1]: This point is marked differently by different universities.
Our point of view is if a company has been listed for a number of years on the JSE – and there is no indication/trigger in the question that there is non-compliance with JSE requirements/or that there is evidently a going concern issue – the risks that one has seen in previous papers are not necessarily all applicable/relevant i.e.
Risk of overstatement of revenue/understatement of expenses to meet market expectations
Risk of fines/penalties.

The non-compliance of the legislation also raises a going concern risk as there is a possibility of MultiStar 'losing' its broadcasting license.	1
These risks relating to going concern raises further risk in whether the preparation of the financial statements on the going concern assumption is reasonable.	1
Available	15
Max	9

ii) At assertion level for the investment in an associate.	
The investment (carrying amount) may be shown at the incorrect amount on the SOFP due to the risk of complex calculations involved in the calculation of the carrying amount of underlying assets and liabilities increase risk of misstatements.	1
The interest in BetKing might be seen as having significant influence, when it in fact there may not be significant influence and the investment may be incorrectly accounted for as an investment in an associate/incorrect application of equity method.	1
Risk that dividends received and share of profit are not adjusted against the cost of the investment.	1
Disclosure (<i>Presentation and disclosure; Completeness</i>)	
<ul style="list-style-type: none"> The interest in the associate might not be disclosed according to IAS 28, IFRS 12 for example nature of and risk associated with the investment, etc. (general disclosure mark) Share of profit of associate might not be presented as a separate line item in the SPLOCI. 	1
	1
Available	5
Max	4

iii) At assertion level for property, plant and equipment.	
Given the magnitude of the acquisition price of the building i.e. R43 million compared to the performance materiality of R20 million, there is an increased risk that misstatements in this account balance will cause material misstatements in the financial statements.	1
There is a risk pertaining to the accuracy, allocation and valuation as the residual value is regarded to be 'fixed' at acquisition date, however, there is a risk that there is non-compliance with IAS 16 as it requires the residual value to be assessed on an annual basis.	1
There is a risk that the head office building is not correctly reclassified as investment property, as it is not owner occupied and is rented out in terms of long term lease agreement (not property, plant and equipment anymore).	1
There is a risk pertaining to the accuracy, allocation and valuation as previous head office building is investment property and the risk is that it is not valued at fair value in according with IAS 40.	1
There is a risk pertaining to the accuracy, allocation and valuation as the head office building is already 'vacant' for 12 months indicating that there is possible impairment on the fair value of the head office building.	1
Available	5
Max	4

iv) At assertion level for subscription revenue of decoder packages.	
Revenue is a significant risk because of the fact that revenue is a substantial element of performance-related pay is linked to profit targets, sales targets and share price movements and thus inherently risky and increases fraud risk	1
Risk that the revenue is not allocated correctly (resulting in incorrect recognition)	2

based on whether customer opt to pay for the decoder upfront – which will require revenue to be recognized at a point in time versus a customer opt to pay as part of monthly subscription which would require the 'split' of revenue based on the cash price vs 'finance' component.	
Risk that the package option has not been allocated accurately between the different performance obligations i.e. decoder and subscription fees resulting in incorrect revenue being recognized (accuracy and cut-off).	1
Risk that subscription revenue is accounted for in the incorrect period (cut off) as a part should be recognized at a point of time (i.e. decoder) and the remaining part should be recognized over time (i.e. subscription).	1
According to ISA 240 there is a presumed fraud risk of revenue recognition , especially taking into consideration that the total monthly package should be allocated to two different performance obligations.	1
Available	6
Max	4
<i>Communication – logical argument</i>	1

b) Discuss whether the proposal by the board to have mandatory vaccinations for employees is regarded as ethical or not.	
<i>The board has to consider what is good for self and good for others in deciding whether the mandatory vaccination is ethical or not.</i>	
Students can also use the RIMS strategy that involves: 1. Generate and evaluate all points of view. 2. Identify implications. 3. Find solutions.	
Good for self: the chairman's views on the mandatory vaccination is to protect customers and will allow MultiStar to continue with their business.	1
Good for others: as the employees are working with clients on a daily basis it can be regarded as good for others to protect them from being exposed to the virus (reduced risk of getting infected when vaccinated).	1
Bad for others: the refusal to receive the vaccination can be regarded by employees as a basic human right and therefore the mandatory vaccination can be regarded as bad for employees.	1
The refusal for vaccination can also be as a result of cultural or religious beliefs.	1
In addition, the 'salary cut' for employees who is not willing to get vaccinated can also be regarded as bad for others (employees).	1
Available	5
Max	4
<i>Communication – logical argument</i>	1

c) Describe the audit partner, Heleen Bruwer's considerations and response based on the information provided in relation to the ICASA Broadcasting regulations in terms of legislation and the International standards on auditing.	
Legislation	
Heleen needs to consider whether a reportable irregularity exist in terms of the Audit Professions Act (APA).	Audit
If Heleen is "satisfied or has reason to believe" that a reportable irregularity is taking place or has taken place	
The audit firm in their capacity as auditors of MultiStar have reason to believe that it occurred as it was documented and discussed at the board meeting (included in the minutes).	1

An unlawful act or omission has been committed as follows:	
The board are guilty of breaching the requirements of the Broadcasting Act 4 of 1999 because they are not broadcasting sufficient local content as prescribed by legislation.	1
By any person responsible for the management of the entity	
The directors of MultiStar discussed this matter at a board meeting nonetheless they decided to still broadcast the more 'profitable' content.	1
Has or is likely to cause financial loss to the entity, shareholders, creditors, etc.	
If the company loses their broadcasting rights that can result in significant decreasing in revenue (even going concern issues) resulting in a loss for shareholders.	1
The 'closing down' or material loss incurred by MultiStar can result in employees losing their jobs.	1
Is the act or omission fraudulent or does it amount to theft	
The act is fraudulent as other broadcasters have to adhere to the legislation and the directors are knowingly not complying with the legislation.	1
Material breach of fiduciary duty owned by the directors	
Knowingly risking the future existence of the company by not streaming local content cannot be regarded as acting in the best interest of the MultiStar.	1
Heleen, as the registered auditor, should without delay, report a RI to the IRBA.	1
Impact on audit report	
Moreover, when drafting the auditor's report on the annual financial statements, the consequences of the reportable irregularity have to be considered – given the requirements of section 44 of the Auditing Profession Act, specifically:	
<ul style="list-style-type: none"> • Whether the financial statements fairly present, in all material respects, the financial position of the company and the results of its operations and cash flows; 	1
<ul style="list-style-type: none"> • The modification required to the auditor's report required in terms of subsection (3)(e) – to report on the fact that a reportable irregularity has been identified. 	1
ISA 250 Consideration of laws and regulations in an audit of financial statements	
<i>ISA 250 par 19 states that if the auditor becomes aware of non-compliance with laws and regulations the auditor shall:</i>	
Obtain an understanding of the nature of the act and the circumstances- auditor should obtain evidence about the non-compliance of the Broadcasting act.	1
Obtain further information to evaluate the possible effect on the AFS – evaluate the impact of losing broadcasting license on AFS.	1
If the auditor suspects non-compliance, the auditor shall discuss the matter with the appropriate level of management, including TCWG	1
Auditor should evaluate the implications of identified non-compliance in relation to other aspects of the audit.	1
Heleen should consider whether it is still appropriate for Maraaz to continue as the external auditor of MultiStar.	
Available	14
Max	10
<i>Communication – clarity of expression</i>	1
Total max	11

d) Describe the substantive procedures that should be performed to obtain sufficient and appropriate audit evidence with regards to the following:	
i. Initial recognition of subsequent measurement of investment in associate in the consolidated financial statements of MultiStar Ltd.	
Inspect the purchase agreement to confirm the following with regards to the investment in the associate:	
• Acquired on 1 October 2021.	1
• Shareholding acquired is 20%	1
• Confirm that 'cash' purchase price is R81 million, with a contingent consideration of R31 million.	1
• Verify all other conditions to establish whether MultiStar will have significant influence over BetKing.	1
MAX 2	
Discuss with management the assumptions they made with regards to the interest acquired in BetKing (i.e. whether it is a significant influence) to determine whether the equity method of accounting is appropriate.	1
Inspect the bank statement to confirm that the first cash payment of R81 million was made on 1 October 2021.	1
(initial recognition) Discuss with management the assumptions made in assessing the fair value of the contingent consideration , including the probability of BetKing achieving the 'required' profits on the initial date of recognizing the investment in associate.	1
(subsequent measurement) Discuss the probabilities and assumptions made by MultiStar in assessing the fair value of the contingent consideration at year end as fair value needs to be reassessed at year end.	1
Inspect the journal to which MultiStar's portion of dividends received and profit share is adjusted against the cost of the investment.	1
Consider reliance on work of management expert	
Evaluate whether reliance can be placed on management's expert through enquiry of the expert, MultiStar staff, inspection of relevant documents, etc. and assess the following:	1
• Discuss/ inspect copy of qualifications with regard to his membership of accredited professional bodies	1
Discuss/inspect independence declaration to assess the independence / objectivity of the external valuers from the MultiStar.	1
Obtain an understanding of the process followed by the expert in computing the fair values by:	
• inspecting the engagement letter setting out the nature, scope and objectives of the work;	1
• inspecting the valuation report and enquiry from the expert.	1
• assessing their understanding of the requirements of the accounting reporting frameworks (IAS 28)	1
Obtain the experts workings and confirming the arithmetical accuracy	1
Re-perform of the experts calculations based on their assumptions.	
Available	14
Max	11

ii. Dividends payable	
Inspect the minutes of the directors' meeting for the following:	
• resolution to declare the ordinary dividends and amount of the declaration.	1
• resolution stating that the board applied the solvency and liquidity test and has reasonably concluded that the requirements of the test were satisfied.	1
Inspect the minutes of the meeting to confirm the date that the decision was taken to declare the dividend as well as the date of the approval (shareholders meeting).	1
Inspect the minutes of the shareholders meeting to confirm that it was approved at the shareholders meeting on 20 September 2021 by means of a special resolution .	1
Inspect the attendance register of the shareholders meeting to confirm that the required quorum was present (i.e. duly constituted shareholders meeting) and that at least 75% of the shareholders voted in favour of the dividend being declared.	1
To ensure that the solvency and liquidity requirements per section 46 of the Companies Act have been complied with, compute and evaluate the solvency and liquidity ratios based on the financial information contained in the trial balance / management accounts at the date of the dividend declaration .	2
Reperform the calculation of the dividend by multiplying the ordinary dividend per share declared per the approved board minutes (1) with the number of shares in issue by inspecting the company's register of members / shareholders register at the date of the dividend declaration (1).	1
	1
Inspect the bank statement (subsequent to year end) to confirm that the amounts have been paid out.	1
Inspect the documentation/correspondence/returns issued to SARS to confirm the amount of dividend's tax deducted and paid over to SARS.	1
Inspect the JSE SENS announcement for the details of the dividend declaration including the date; amount etc.	1
Available	12
Max	8

e) Formulate the substantive computer assisted audit techniques (CAATS) that can be performed to obtain sufficient and appropriate audit evidence for property, plant and equipment.		
By using CAATS, extract a sample of PPE items from the opening balance and additions for the year for the purposes of physical verification and inspection of supporting documentation.	1	
Re-perform the casting and cross casting of the fixed asset register to ensure all totals are correct including:	1	
	• Recalculate the depreciation expense for the year.	1
	• Recalculate the carrying amount by taking the purchase price and deducting depreciation and impairment amounts.	1
	• Recalculate the amount recognized for the disposal	1
Use CAATS to perform analytical procedures by comparing the depreciation expense for the current year with the previous year and assess the reasonability.	1	
Compare prior year balances to current year balances to identify anomalies and follow up with management.	1	
Use CAATS to sort the PPE according to their description and verify whether similar depreciation rates have been used (i.e. comparison test) (Alternatively assess whether assets with similar description have significantly different depreciation rates or useful lives and follow up with management)	1	

By using CAATS, extract reports of the following possible anomalies (exception reports) and follow up with management	1
<ul style="list-style-type: none"> • Missing fields i.e. bar code numbers, description, no depreciation expense • Duplicate fields i.e. asset bar code numbers (QR codes?) • Negative amounts in the following fields; additions, cost of asset, book value of asset, residual value • Instances where the residual value exceeds the book value 	1 1 1 1
By using CAAT's calculate an average maintenance cost for the year per class of asset, compare to prior year and then extract assets with maintenance costs significantly greater than the average.	
Using CAAT's, extract a list of assets that have significant maintenance costs incurred during the year as it could be an indication of impairment.	1
Available	13
Max	9

f) Based on the content of the emails from the audit partner at CPI to Heleen Bruwer (see section 4), discuss concerns with reference to SAICA's Code of Professional Conduct and the International Standards on Auditing.	
Human resources – assignment of engagement teams (ISQC 1:30) The engagement partner should take responsibility for the audit engagement and should have necessary competence and capabilities.	
The audit partner does not take responsibility for the audit engagement as all the responsibility is 'shifted' to the audit manager.	1
No engagement letter appears to have been signed as required by ISA210 given that the 'formal appointment' was only communicated to Tony Pengy by his friend, Edwin (financial director at MultiStar).	1
Moreover, Tony does not appear to have adequately considered the firm's ability to comply with ethical requirements (sufficiency of staff to perform the engagement and/or the client integrity) before accepting this engagement. This is a requirement of ISA 220.12.	1
The information in the email state that the FD is a 'good friend' of the audit partner which raises a <ul style="list-style-type: none"> • familiarity threat to • the audit partner's independence. 	1 $\frac{1}{2}$ $\frac{1}{2}$
It is not evident that this threat has been adequately evaluated and/or that actions were taken to reduce this threat to an acceptable level.	1
In terms of ISA220.15, the engagement partner is responsible for the direction of the audit engagement in compliance with the professional standards. However, the nature of the direction provided by Tony Pengy is very poor – as the audit planning documentation for the audit of a company in the mining industry is likely to differ significantly from that of a company such as MultiStar. This specifically brings his adherence to the fundamental principle of professional competence and due care into question.	1 $\frac{1}{2}$
There is most likely insufficient time provided for the audit manager to prepare an audit planning document – the request was sent on 21 September – with the Audit Committee meeting scheduled for the next day.	1
In terms of ISA220.14 the engagement partner shall be satisfied that the engagement team collectively has the appropriate competence and capabilities to perform the engagement in accordance with the Standards. However: <ul style="list-style-type: none"> • There is insufficient staff with appropriate levels of skills to perform the audit, which also creates a self-interest threat • with respect to professional competence and due care. • There is only one second-year trainee to assist on the fairly sizeable audit 	$\frac{1}{2}$ $\frac{1}{2}$

engagement, indicating that the audit is understaffed.	1
<ul style="list-style-type: none"> Two completely inexperienced graduates are being used on the audit on a part-time basis, providing very limited relief to the understaffing situation. Moreover, the two graduates are not trained in the firm's methodology and testing methods and may not have sufficient knowledge or experience to deal with the audit, increasing the audit risk. 	1 1
The engagement partner is also responsible for the supervision and review of the audit work performed (in terms of ISA 220.15 and .16).	1
<ul style="list-style-type: none"> As the second-year trainee will be the only other person, apart from the manager, who will be active on the audit, and the graduates are inexperienced, more oversight will be required to coach the graduate students, placing pressure on the trainee and the manager, lowering audit quality. Moreover, the review of the audit work conducted (at least that performed by the audit manager) is not considered – as the audit partner is willing to sign the auditor's report when the work is completed (i.e. without any review). 	1
The engagement partner's involvement in the planning of the audit is very limited and not consistent with the requirement in ISA300.5 that the engagement partner shall be involved in the planning of the audit.	1
Available	16
Maximum	11

g) With reference to section 5: Identify the internal controls to be implemented by BetKing to ensure that no unauthorised access is obtained to the course content and that the fees that are paid over to the content providers are complete, accurate and valid..	
No unauthorized access to the course content	
Access controls to the online learning platform to ensure that username and password for delegates are required to be entered to gain access to course content.	1
The system should prompt the delegate to use a password that is of minimum length, not easy to guess, mixture of alphanumeric characters.	MAX 2
Encryption techniques to prevent non-registered delegates from accessing the content such as SSL (secure socket layer technology) to secure the internet connection and safeguard sensitive information.	2
Firewalls/anti-virus software to prevent non-registered delegates from accessing the content	1
A limit test should be performed on the number of devices from which a delegate accesses the CCD. If it is over a certain limit an enquiry should be made to the delegate.	1
Access to course content by delegates should be restricted until course payment has been received.	1
There should be access controls over the CCD i.e. access tables providing read/write access to ensure that only certain employees have access to segregate duties.	1
Back up of all data needs to be performed on a daily basis and stored off site.	1
Controls to ensure completeness, accuracy and validity	
As there are two accountants working with the reports/schedules, controls should be put in place to ensure isolation of responsibility (i.e. signing off; author sign off on excel; read/write access etc.).	1
Reconciliations	
A reconciliation of number of courses registered for on the website to number of registrations on the RDD should be performed.	1

Commented [EG2]: The marks for access controls and password controls are awarded once- either when used for delegates or when used for employees.

A control total test should be performed between the number of new registrations/completions on the database and the new registrations/completions as per the excel report.	1
Formulas in excel should be 'set up' and reviewed (cell protected) to ensure that amount allocated to content provides is 50% and thereafter that it is 40% for all new delegates and 60% for all completed delegates	1
The properties of the MS Excel sheet should be amended that it only has read access that no adjustments can be made after the review.	1
The amount should only be posted to the content providers' account in the creditors' ledger when the 'payment schedule' has been reviewed – i.e. reconciliation of payment voucher with supporting payment schedule and original excel report (1) and the amount should be posted by an independent person (from the accountant preparing the schedule) i.e. segregation of duties .	1
Validation checks should be performed on the number of registrations versus the number of course completions. If course completions are lower than expected, this should be investigated by a manager.	1
A monthly reconciliation should be performed comparing course completions to the amount of revenue paid to content providers to confirm that the full 50% of the delegates fees have been paid over to content providers once the course is completed.	1
Completed courses delegates needs to be reconciled to completion certificates issued to delegates to ensure the total of completed courses are accounted for correctly	1
All payment schedules should be matched to the creditors ledgers and any missing amounts should be followed up (creditors reconciliations).	1
The monthly reconciliations should be reviewed and signed by the accountants and financial manager.	1
Available	20
Max	15
Communication – <i>clarity of expression</i>	1

h) With reference to SupraSport, discuss the audit team's considerations in assessing the impact of the content of the email on the audit report of SupraSport.	
Material uncertainty regarding going concern	
In terms of IAS 1.25, when a material uncertainty related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern exist, the entity shall disclose those uncertainties. The audit team should consider to request SupraSport to include additional disclosure.	1
By not making sufficient disclosure of the going concern uncertainty, this is a factual uncorrected misstatement (disagreement) .	1
Given that the misstatement relates to inadequate disclosure regarding the going concern, it will be qualitatively material as these disclosure are likely to influence the economic decisions of users.	1
As the failure to disclose the going concern uncertainty is fundamental to users understanding of the financial statements, the effect of the uncorrected misstatement is considered to be pervasive .	1
Due to these aspects, Heleen has to consider the modification to the audit report and whether an adverse audit opinion should be expressed on the financial statements.	1
Consideration should be given whether a reportable irregularity exist given the intention of not disclosing any other/additional information.	1

A reportable irregularity exist as the governing body is not providing reasonable set of financial statements (lack of disclosure on going concern issue) which is in contravention of the Companies Act requiring that the financial statements should fairly present financial the affairs of the company (sec 29)	1
Should the auditor conclude that a reportable irregularity exist, this would impact on the auditor's report and the detail relating to the reporting of the irregularity would be explained in the report (i.e. section entitled "Report on Legal and other regulatory responsibilities).	1
Available	8
Max	6
<i>Communication – logical argument</i>	1