AUDIT REPORTS

**2016 FEB/MARCH**

* 1. **AUDIT REPORT**

**EXTRACT FROM THE AUDIT REPORT OF SUMBA LTD.**

We found that internal control procedures were not adhered to and documentation did not exist for a significant portion of the transactions tested

Because of the significance of the matter described in the previous paragraph, we have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements for the year ended 28 February 2014.

**4.3.1 The audit report is an example of a/an (qualified/unqualified/disclaimer**

**of opinion) audit report.**

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| --- |
| Disclaimer of opinion🗸 |

* + 1. Who is the audit report addressed to? Give a reason for your answer. (2)

|  |
| --- |
| * Shareholders🗸
* They are the owners of the company and have appointed the auditors🗸
 |

* + 1. Explain why it is likely that this audit report will have a negative effect on

the value of the shares of this company on the JSE. (2)

|  |
| --- |
| * The value of the shares will decrease
* Shareholders lose confidence in the company and might sell their shares
* Potential shareholders would not want to invest in this company
 |

**2016OCT/NOV**

## INFORMATION:

We have examined the financial statements set out on pages 11–29.

In our opinion, the annual financial statements present fairly, in all material respects:

* The financial position of Fralezi Ltd on 30 June
* The cash flow for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and as required by the Companies Act of South Africa

*Roux and Pieterse Chartered Accountants (CA)*

*Registered Accountants and Auditors Schilbach Street, Parys*

|  |  |  |  |
| --- | --- | --- | --- |
| 3.2.1 | To whom is the audit report addressed? |  | (1) |
|

|  |
| --- |
| Shareholders |

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| 3.2.2 | Who has to ensure that the financial statements are prepared presented at the annual general meeting? | and | (1) |
|

|  |
| --- |
| Directors / Management / CEO / CFO  |

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| 3.2.3 | Choose the correct word from those in brackets. Fralezi Ltd received a/an (qualified/unqualified/disclaimer of opinion)audit report choice. |  | (2) |
|

|  |
| --- |
|  Unqualified **Motivation or explanation of choice** Fair presentation / Clean audit / Did not state any shortcomings in the financial statements / In accordance with IFRS or Companies Act. |

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|  |  |  |  |
| 3.2.4 | Explain why the independent auditors referred to pages 11–29 in the report. |  | (2) |

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| --- |
| * Auditors are responsible for only parts / certain pages of the annual report.
* They are not accountable for the other information in the annual reports.
* Financial statements on pages 11–29 were subjected to audit / examination.
* Additional information, such as corporate social investment matters, is not audited.

**NOTE: Sampling is NOT a reason**  |

|  |  |
| --- | --- |
| **2017 OCT/NOV** |  |
| **AUDIT REPORT** |  |
|  |  |
| An extract of the independent audit report of Karin Ltd for the financial year ended on 28 February 2017 is provided. |  |
|  |  |  |
| **INFORMATION:** |  |
|  |  |  |
| **EXTRACT FROM THE AUDIT REPORT OF KARIN LTD** |
|  |
| We have audited the annual financial statements of Karin Ltd for the year ended 28 February 2017. These financial statements are the responsibility of the company's directors. **Basis for Disclaimer of Opinion**In the course of our audit we established that bonuses paid to directors, amounting to R9,8 million, **had not been authorised by the Remunerations Committee.** **Audit Opinion**Because of the significance of the matters described above, we have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements of Karin Ltd for the year ended 28 February 2017.**Bongani and Botha, Chartered Accountants (SA)** |

|  |  |
| --- | --- |
|  |  |
| **REQUIRED:** |  |
|  |  |  |
| As a shareholder, what concerns would you have regarding this audit report? Explain THREE points. |  (6) |
|  |  |
|

|  |
| --- |
| * This is a disclaimer report (no audit opinion).
* It will have a negative effect on the company e.g. reputation / share price / demand for shares /

bad publicity / potential investors lose confidence in the company. * + - * The corporate governance of the company is compromised /not in line with King Code.
			* The correct procedure of approving directors' fees / bonuses was not followed.
			* The directors have abused their position.
			* The huge amount paid to directors could negatively affect the financial results/liquidity and solvency/profitability of the company.
			* Insufficient audit evidence.
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| **2017 OCT/NOV** |  |
| 4.3 | **AUDIT REPORT: DF ENTERPRISES LTD** |  |
|  |  |  |
|  | **INFORMATION:** |  |
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| --- |
| **EXTRACT FROM THE AUDIT REPORT OF DF ENTERPRISES LTD****Basis for Qualification of Opinion**Source documents for expenditure amounting to R550 000 could not be traced. **Audit Opinion**In our opinion, **except** for the effects of the **unsubstantiated expenditure described** in the **Basis for Qualification of Opinion** paragraph, the financial statements fairly represent the financial position of the company on 30 June 2017 and the results of their operations and cash flows for the year ended, in accordance with the International Financial Reporting Standards, and in the manner required by the Companies Act (Act 61 of 1973) of South Africa. |

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|  |  |  |
| --- | --- | --- |
|  | **REQUIRED:**  |  |
|  |  |  |
| 4.3.1 | Choose the correct word(s) from those given in brackets. |  |
|  |  |  |
|  | (a) | The audit report is completed by the (internal/external) auditor. | (1) |
|  |  | **ANSWER:** external auditor |  |
|  |  |  |  |
|  | (b) | The (directors/shareholders/auditors) are responsible for the preparation of the financial statements.  | (1) |
|  |  **ANSWER:** directors |  |
|  |  |  |  |
| 4.3.2 | Refer to the audit report below. |  |
|  | (a) | The audit report below indicates a/an (qualified/unqualified) opinion.  | (1) |
|  |  | **ANSWER:** qualified opinion |  |
|  | (b) | Explain why the shareholders should be concerned about this audit report. State TWO points. | (4) |
|  |  |

|  |
| --- |
| * There is possible fraud/mismanagement occurring in the business.
	+ - * There is a lack of internal control processes (poor recording)
			* The qualified audit report could affect the price of shares /
* reputation of the company
	+ - * Unaccounted expenditure impacted on their return/profits
* Dividends could have been negatively affected by this problem
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**QUESTION 3 (NSC NOV 2018)**

Extracts from the audit report of Tembiso Ltd are provided.

**INFORMATION:**

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| --- | --- | --- | --- |
|  |  | **To Shareholders**  |  |
|  |  |  |  |
|  |  | We have audited the financial statements set out on pages 8 to 52 ... |  |
|  |  |  |  |
|  |  | **Opinion** |  |
|  |  |  |  |
|  | *Point 1* *Point 2* | In our opinion the financial statements present fairly, in all material respects, the financial position of the company as at 28 February 2018 …… in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act (Act 71 of 2008)of South Africa. |  |
|  |  |  |  |
|  |  | **Basis for Opinion** |  |
|  |  |  |  |
|  | *Point 3* | We are independent of the company ...  |  |
|  |  |  |  |
|  | *Point 4* | We have fulfilled our ethical responsibilities, which are consistent with international standards … |  |
|  |  |  |  |
|  | *Point 5* | … and the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.  |  |

|  |  |
| --- | --- |
| **REQUIRED:** |  |
|  |  |  |
| 3.1 | **Refer to points 1 to 3.** Why did the auditors mention these points? Give ONE explanation for EACH point. | (5) |
|  |  |  |
| 3.2 | **Refer to points 4 and 5.** Explain TWO examples of:* Ethical responsibilities
* Audit evidence
 | (8) |
|  |  |  |

**Point 1**

In our opinion the financial statements present fairly, in all material respects, the financial position of the company as at 28 February 2018 …

|  |  |
| --- | --- |
| **Opinion**

|  |
| --- |
| The auditors found no problem to report / unqualified report / statistical sampling used  |

 |

**Point 2**

In accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act (Act 71 of 2008)of South Africa.

|  |
| --- |
| * The company operates on a global market/engages in international trade
* Due to technology, shareholders (investors) may come from all parts of the world
* The company is influenced by the global economy/exchange rates etc.
 |

**Point 3**

We are independent of the company...

|  |
| --- |
| * Their opinion is unbiased/they have no personal interest in the company
* They are authentic. They have high international standards of professionalism to maintain./They have a code of conduct.
 |

**Point 4**

Examples of Ethical responsibilities

|  |
| --- |
| * No colluding with management to overlook any material matter.
* No accepting bribes or engaging in corruption
* Care taken in completing the audit and expressing the opinion.
* The readers can rely on the information in the financial statement
 |

**Point 5**

Examples of Audit evidence

|  |
| --- |
| * Check the internal controls and that the internal auditor has done his job properly
* An audit committee should be appointed to assess the internal and external audit processes (work with internal auditors to ensure internal controls are efficient)
* Source documents (provided by external organisations, provide verification)
* Policies and procedures of the company
* Confirmations may be received from outside parties
* Written and oral representations from management and staff
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