

## AUDIT REPORTS

### 2016 FEB/MARCH

#### 4.1 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.

Disclaimer of opinion ✓

4.3.1 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 ✓

4.3.2 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 ✓

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

Directors / Management / CEO / CFO ✓

3.2.3 Choose the correct word from those in brackets. (2)

Fralezi Ltd received a/an  
(qualified/unqualified/disclaimer of opinion)  
audit report choice.

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.

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

- 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 / and 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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**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

### QUESTION 3

(NSC NOV 2018)

Extracts from the audit report of Tembiso Ltd are provided.

#### INFORMATION:

##### To Shareholders

We have audited the financial statements set out on pages 8 to 52 ...

##### Opinion

*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 ...

*Point 2* ... 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 ...

<i>Point 4</i>	We have fulfilled our ethical responsibilities, which are consistent with international standards ...
<i>Point 5</i>	... 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