Part (a)(i) Advise Brekkies about the difference in the level of assurance that is provided by an independent review in comparison to an audit

1. An audit provides ‘reasonable assurance’ that the financial statements are not materially misstated.  
2. As a review is a limited assurance engagement, it provides a lower (moderate) level of assurance.  
3. With reasonable assurance an opinion is expressed in an affirmative (positive) form.  
4. Limited assurance (a review) provides an opinion expressed in a negative form.  
5. The audit procedures performed for a review engagement are limited when compared to audit procedures performed in an audit engagement resulting in a low level of assurance being expressed in a case of a review engagement.

Total  5
Maximum  3

Part (a)(ii) Advise whether Brekkies would qualify to be independently reviewed in terms of Companies Act, providing reasons for your decision

1. As Brekkies is a private company and not a public or state-owned company, a statutory audit need possibly not be performed in terms of the requirements of section 90 of the Companies Act.  
2. Brekkies’s Memorandum of Incorporation does not require an audit – an independent review is therefore a possibility.  
3. Brekkies shareholders are not listed on JSE, which means that the JSE requirement that all subsidiaries of listed companies be audited does not apply.  
4. Brekkies does not, in the ordinary course of its primary activities, hold assets in the fiduciary capacity for the persons who are not related to the company, and the aggregate value of such assets held at any time during the financial year exceeds R5 million.  
5. In terms of section 30(2)(b) of the Companies Act and the Companies Act Regulations, in addition to public and state-owned companies, where the audit of any other company (profit or non-profit) is desirable in the public interest as indicated by prescribed criteria (turnover, size of the work force and nature and extend of the activities) in any particular financial year, those annual financial statements must be audited. Calculate the public interest score (PI score) to determine if there is desirable public interest.
6. To determine if the audit is required at Brekkies consider the following additional prescribed criteria:
   • Determine if the PI score of Brekkies in the 2012 (2011) financial year is 350 or more; or
   • If the PI score in the 2012 (2011) financial year is at least 100 (but less than 350) and whose annual financial statements for that year were internally compiled.

Total  5
Maximum  3

Therefore Brekkies’s PI score at end of the 2012 financial year must be calculated to determine whether a review may be carried out.

- The PI score for Brekkies for the 2012 financial year end (using forecast figures or 2011 audited FS) is calculated as the sum of the following:
  - Score
  - Prior Year figure

- Average number of employees during 2012 (excluding contract workers), in terms of the definition of ‘employees’ in the Labour Relations Act, 1995 (Act 66 of 1995)
  - 50 or 60
  - 54 or 55

- One point for every R1 million in third party liabilities at 2012 year end (based on borrowings of R22m + tax liabilities of R12m + trade payables of R15m = R49m, excluding deferred tax)
  - 49
  - 50

- One point for every R1 million in turnover during the 2012 financial year (revenue = R180m)
  - 180
  - 170

- In the case of a profit company, one point for every individual who, at the end of the financial year, directly or indirectly has a beneficial interest in any of the company’s issued securities. In Brekkies’s case the shares are owned by companies and not individuals
  - 0
  - 0

- Brekkies’s total PI score for the 2012 financial year
  - 279
  - 274

7. Conclusion: As this score is less than 350, an audit is not required based on the PI score calculation; however, as the score is more than 100, it is necessary to consider whether the financial statements have been independently compiled and reported based on the criteria set out in Companies Regulation 26.

8. In applying the criteria of Regulation 26 of the Companies Act, it is concluded that the financial statements have been independently compiled and reported on the following basis:

Mr Smith qualifies as an ‘Independent accounting professional’ as he is:
- a member in good standing of a professional body that has been accredited in terms of section 33 of the Auditing Profession Act (SAICA)
- does not have a personal financial interest in the company or a related or inter-related company (he is a consultant nor owner)
- is not involved in the day to day management of the company’s business, nor has been so involved at any time during the previous three financial years (used to be the audit partner and now consultant), nor is he related to any person who acted in such capacity; and
- is not a prescribed officer of the company.

9. The financials were prepared on the basis of financial information prepared in accordance with relevant financial reporting standards (IFRS) provided by the company.

Communication mark – layout and structure (correct letter format) 1

Communication mark – logical argument 1

Available 26

Maximum 16
### Part (b) Discuss your firm's reporting responsibilities in relation to Brekkies (other than the ISRE 2400 report)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>1.</strong></td>
<td>A <strong>reportable irregularity has occurred</strong> during the 2012 financial year at Brekkies because –</td>
</tr>
<tr>
<td><strong>2.</strong></td>
<td>an act has been <strong>committed</strong> by Miss Nate, the Sales Director (person responsible for the management of the company) which –</td>
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<td><strong>3.</strong></td>
<td>unlawfully has caused or is likely to cause material financial <strong>loss</strong> to Brekkies or to any member, shareholder, creditor or investor of the company in respect of his, her or its dealings with Brekkies (DBJ needs to consider whether the amounts were material – this is probably not the case as the amounts involved were not significant); or</td>
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<td><strong>4.</strong></td>
<td><strong>Is fraudulent or amounts to theft</strong> (from the nature of the incident this was clearly the case); or</td>
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<td><strong>5.</strong></td>
<td><strong>causes or has caused the company to trade under insolvent circumstances</strong> (this is not applicable to the Brekkies situation).</td>
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<td><strong>6.</strong></td>
<td>Therefore in terms of Regulation 29(6) of the Companies Act, an independent reviewer of a company that is satisfied or has reason to believe (from discussions with Brekkies management) that a reportable irregularity has taken place or is taking place in respect of that company must, <strong>without delay, send a written report to the Commission</strong>.</td>
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<td><strong>7.</strong></td>
<td>DBJ therefore needs to send a <strong>report in which it gives particulars of the reportable irregularity</strong> and must include all necessary information and particulars with regard to the fraud.</td>
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<tr>
<td><strong>8.</strong></td>
<td>Regulation 29(7) requires the independent reviewer (DBJ) to, <strong>within three business days</strong> of sending the report to the Commission, notify the members of the Board of the company (Brekkies) in writing that a report has been sent to the Commission.</td>
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<td><strong>9.</strong></td>
<td>Regulation 29(8) requires that the independent reviewer as soon as reasonably possible <strong>but not later than 20 business days</strong> take all reasonable steps to –</td>
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<td><strong>10.</strong></td>
<td><strong>discuss the report with the members of the Brekkies Board</strong> and afford them an opportunity to make representations on the matter, and</td>
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<tr>
<td><strong>11.</strong></td>
<td>send another report to the Commission, in which the reviewer states that the irregularity is no longer taking place and that adequate steps have been taken by Brekkies for the prevention or recovery of any loss as a result of the fraud.</td>
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<td><strong>12.</strong></td>
<td>The underpayment of the tax returns does not appear to be any deliberate tax evasion on the part of management as they have also agreed to pay the outstanding amount, which includes the short payment, penalties and interest. Therefore <strong>DBJ will have no specific reporting responsibilities in this regard</strong>.</td>
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<td>Communication marks – Logical argument</td>
<td>1</td>
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<tr>
<td>Maximum</td>
<td>6</td>
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