Part (a)(i)

The requirements of South African Statements of Generally Accepted Practice (GAAP) relating to the financial position of Vision U Ltd, which are relevant to the directors of Vision U Ltd.

1. GAAP requires preparers to consider the validity of the going concern assumption in the preparation of the annual financial statements (AC000.23/IAS1 par. 23)
2. GAAP requires that preparers disclose the factors, if any, which result in there being uncertainty about the ability of the entity to continue as a going concern. (AC000.34/IAS1 par. 23)
2.1 The disclosure requirements are ...
3. GAAP requires, where the preparer concludes that the going concern basis is not appropriate, that the preparer use an appropriate basis of accounting for the preparation of the annual financial statements. (AC101.24 and 25/ IAS par. 23 and 24)
4. Vision U should consider the appropriateness or otherwise of the going concern basis of accounting and should amend the annual financial statements as necessary.

Part (a)(ii)

The issues that arise from the Companies Act in relation to the financial position of Vision U Ltd, which the directors need to consider.

1. Section 424 of the Companies Act prohibits a company from trading recklessly.
2. Trading recklessly has been held in a number of court cases to arise when a company is unable in the normal course of business to settle its debts when due. (See Philotech (Pty) Ltd and SAICA guide)
3. In terms of the SAICA guide a distinction is drawn between “factual insolvency” and “commercial insolvency”. Award a mark for a relevant discussion and motivation of this.
4. The directors may be exposed to personal liability if the company is found to be trading recklessly.
5. Directors’ exposure to liability may be protected by application to court in terms of section 248 of the Companies Act.
6. The directors should obtain legal advice on the position of the company.
7. Even though the company may be technically solvent (assets exceed liabilities), the directors should consider the company’s ability to settle its debts when due.
8. If there is no realistic chance of being able to settle debts when due, the directors should consider applying for an appropriate remedy, viz. compromise, moratorium or judicial management to ensure that the creditors are paid as much as possible and to allow for a recovery effort at the company.
Part (a)(iii)

The requirements of the Public Accountants and Auditors Act and South African Auditing Standards relating to the financial position of Vision U Ltd.

1. The auditor has a duty to report a “material irregularity” in terms of Section 20(5) of the PAA Act if the auditor has reason to believe that such an act has taken place or is taking place, and if in the auditor’s opinion:
   • it is an irregularity,
   • it is material,
   • it arose in the conduct of the undertaking’s affairs, and
   • it has caused or is likely to cause financial loss to the undertaking and to all or any of its members or creditors.

2. An irregularity can be contained in or arise from a breach of statutory provisions, the common law or the undertaking’s own constitution (the memorandum and articles of association in the case of a company). In practice, an irregularity will almost invariably appear in one or more of the following forms: a common law crime or statutory offence (such as fraud, forgery, bribery, theft or contravention of sections 38 or 226 of the Companies Act, 1973); or a breach of trust (i.e. breach of a fiduciary duty by a fiduciary, such as by a director to exercise the care and skill required of a director).

3. The auditor should consider whether the negative cash flow and accumulated loss indicate a potential material irregularity relating to the ability of the company to settle its debts when due.

4. Further matters of an irregular nature evident in the question include issues of directors’ remuneration and the withholding of tax on these benefits.

5. If the auditor believes the company is or may be contravening section 424 of the Companies Act, the auditor writes and hand a letter outlining this as described in section 20(5) to the Chairman of the Board of Directors of Vision U.

6. If within 30 days, Vision U has taken adequate steps to rectify the situation, the auditor would note such steps and the reporting requirement would be met.

7. If within 30 days, Vision U has not taken adequate steps to rectify the situation, the auditor submits an affidavit and all relevant correspondence to the Public Accountants’ and Auditors’ Board.

8. Under SAAS, the auditor would consider whether there is material uncertainty regarding Vision U’s ability to continue as a going concern.

9. If such an uncertainty is judged to exist, the auditor requests the preparer to disclose the uncertainty.

10. To the extent that Vision U adequately discloses the material uncertainty, including a discussion of management’s plans to restore profitability, the auditor modifies the audit report with a “emphasis of matter” opinion.

11. To the extent Vision U does not adequately disclose the uncertainty, the auditor modifies the audit report with an “except for” qualification.

12. To the extent the auditor believes the entity is not a going concern, the auditor expresses an adverse opinion on going concern.

13. Consider appropriateness of audit procedures and extend these as necessary.

14. Reconsider audit evidence supporting the intangible asset of R102 876 000.
### Part (b)

**Composition**
- The remuneration committee should be chaired by an independent non-executive director.
- The remuneration committee should be comprised entirely, or by a majority of independent non-executive directors.
- The majority of the non-executive directors should be independent directors.
- The CEO may be a member of the committee, or may attend by invitation.

**Role**
- The remuneration committee should recommend a remuneration strategy, policy and method for determining individual remuneration to the Board.
- The committee should consider benchmarks of remuneration paid and method of payment by other companies in a similar industry.
- The committee should set the performance criteria for directors, including the performance measurement process.
- The committee should consider the amount of remuneration - fixed and variable - allocated to each director and reach a determination of the quantum of such remuneration.
- The committee should decide on the manner in which remuneration is paid.

### Part (c)
- Directors should not be paid monies on a tax-free basis.
- Directors should not be lent money at any time without appropriate prior approval of shareholders.
- Approval of shareholders may be obtained by way of special resolution or prior consent (s226 (2)).
- All monies lent to directors should be disclosed, even if repaid by the end of the financial period (Cos Act 295).
- Director’s remuneration includes all amounts (cash or assets) paid or accrued to any person arising from the position as a director (Cos act 297 2 (a)).
- Directors’ remuneration may require shareholder approval - inspection of the memorandum and articles will determine what approval is required.

### Part (d)
- Consider whether the extent of the grain loss and potential insurance claim has any impact on the going concern assessment.
- Conclude that this should not be the case.
- Consider whether the event after balance sheet date is adjusting or non-adjusting.
- Conclude that it is not an adjusting event, as the event occurred after the year end and does not provide evidence of conditions that existed at the balance sheet date.
- Conclude that it is a non-adjusting event after the balance sheet date. Therefore no adjustment to the balance sheet required.

**Disclosure note**
- Presentation
- Description of the event
- Provision for the expectation of the financial effect, or a statement that such an estimate cannot be made.