LOGISTA

REPORT TO THOSE CHARGED WITH GOVERNANCE

31 DECEMBER 2021

AFROSAI-E

18 MARCH 2022

Independent Member of
BKR INTERNATIONAL

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1. COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

International Standards of Auditing (ISA) 260 requires us to communicate certain matters to the Audit Committee:

MATTERS TO COMMUNICATE	CONCLUSION
Auditor's responsibility in Relation to the Financial Statement Audit	Our responsibility is to perform the audit in accordance with ISA's, which is directed towards the expression of an opinion on the financial statements
Planned scope and Timing of the Audit	The audit work is substantially completed as per agreed timelines
Significant Findings from the Audit	None to report
Significant Qualitative Aspects of Accounting Practices	None to report
Significant Difficulties Encountered during the Audit	None to report
Significant Matters discussed or Subject to correspondence with Management	This is presented in this report. (Refer to section 4)
Auditor Independence	In line with our firm's internal procedures all team members of the team confirmed their independence from AFROSAI-E at the planning stage. No conflict of interests has been identified as part of this process.

2. FRAUD CONSIDERATIONS

In line with International Standards of Auditing (ISA) 240, our audit procedures should also include procedures around fraudulent activities.

Our audit procedures included discussions with management regarding known or suspected fraudulent financial reporting or misappropriation of assets.

We have not come across any suspected fraudulent activities through the course of our audit work.

We further, extend our enquiries to management as to whether it is aware of any fraudulent financial reporting and/or any misappropriation of assets.

3. INTERNAL CONTROLS

We follow a risk-based audit approach and included in the procedures is an evaluation of the entities internal control.

The internal controls are well designed and maintained; no deficiencies were found in our evaluation of the controls.

4. SIGNIFICANT AUDIT FINDINGS

There were no significant matters to report.

5. ISSUES TO BE DISCUSSED

5.1: FULLY DEPRECIATED ASSETS STILL IN USE

Criteria

IFRS for SME's 17.18: An entity shall allocate the depreciable amount of an asset on a systematic basis over its useful life.

17.21 An entity shall consider all the following factors in determining the useful life of an asset:

a. the expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.

b. expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.

c. technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset.

17.19 Factors such as a change in how an asset is used, significant unexpected wear and tear, technological advancement and changes in market prices may indicate that the **residual value** or useful life of an asset has changed since the most recent annual **reporting date**. If such indicators are present, an entity shall review its previous estimates and, if current expectations differ, amend the residual value, depreciation method or useful life. The entity shall account for the change in residual value, depreciation method or useful life as a change in an **accounting estimate** in accordance with paragraphs 10.15–10.18.

Par 5 of Assets policy states "for depreciation purposes the estimated useful life of newly acquired assets will be as follows

- Computer equipment – 3years
- Motor vehicles – 4 years
- Office furniture – 6 years

Observation

During the audit of Property, Plant and Equipment it was identified that there were assets still in use but are fully depreciated which indicates not all factors in determining the useful lives were considered or there has been a change in how the asset are used.

Vehicles were bought in 2013, their useful life was determined as 4 years. The assets have been depreciated up to their residual values.

Below is a list fully depreciated assets but are still in use:

NO.	ASSET NUMBER	DESCRIPTION	ASSET CATEGORY
1	N/A	Inauguration shield in wooden cabinet with original signed copy of statutes.	Office Equipment
2	178	1xTranslation system 12 unit case	Office Equipment
3	162	Binder Machine	Office Equipment
4	208	Receiver x20_No 25	Office Equipment
5	195	12x receivers _No 32	Office Equipment
6	305	Projector Acer PJ P1285B	Computer Equipment
7	306	Projector Acer PJ P1285B	Computer Equipment
8	318	Projector Acer PJ P1285B	Computer Equipment
9	129	Yealink_Telephone	Computer Equipment
10	24	Kyocera TASKalfa 3050 Ci Printer	Computer Equipment
11	159	TV in canteen (mounted)	Computer Equipment
12	N/A	Network Infrastructure	Computer Equipment
13	468	Server Infrastructure	Computer Equipment
14	N/A	Audio Infrastructure	Computer Equipment
15	485	Hisense TV (55")	Computer Equipment
16	N/A	Toyota Corolla 1.6	Motor Vehicle
17	N/A	H1 2.5 VGT White 9 Seater Bus	Motor Vehicle

Root cause

The useful lives determined for some assets are not aligned to the expected usage.

Potential effect

The value of assets disclosed in the annual financial statements might be understated due to assets being depreciated in a shorter period than their expected usage. The impact for electronic equipment may vary as specifications have an influence on the actual value of the item. The potential impact of the vehicles were discussed with management.

Recommendation

1. Management should assess the fully depreciated to determine if there is a still expected future usage of the assets.
2. Management should consider creating additional asset categories where the useful life of the assets in the category will be aligned to the expected usage, or
3. Evaluate a range of useful lives within a category.

Management response

1. The recommendation to review and assess the assets policy regarding the initial estimated useful lives and introducing a range for the depreciation of new assets by asset category rather than a fixed period will be investigated. Initial review is that the implementation will require a set-up change in the accounting package and is currently being discussed with the support vendor.
2. The potential impact of fully depreciated electronic equipment does not have a material financial consequence. Most of the identified assets are technologically obsolete and will be replaced as soon as they fail to function. The remaining estimated useful life is uncertain due the repair costs being unviable. The assets are therefore retained at a zero carrying value until disposed. The obsolete electronic equipment, often does not have a market value or an immaterial value once it fails to function.
3. The residual value of the vehicles will be re-evaluated for the 2022 Annual Financial Statements and the depreciation recalculated. The value is approximately R120,000 understated. It was discussed that the amount is not material at this stage and the matter will be included in the schedule of “overs and unders”.

Implementation date

Financial year ending 31 December 2022.

Person responsible

Rod Francis

6. SUMMARY OF AUDIT DIFFERENCES

The following table shows the turnaround effect of prior year errors on the current year and any other *unadjusted* differences relating to the current year. These are carried on the overs-and-unders schedule:

Nr	Description	Non-current assets R	Current assets R	Non-current liabilities R	Current liabilities R	Equity attributable to members R		Equity attributable to NCI R	Income statement R
1	Carrying cost of assets below market value from previous year.	15,250				(15,250)			
2	Estimated effect of useful live adjustment.	116,915				(179,975)			63,060
3	Accounting difference in estimates residual value of vehicles	131,425				(131,425)			
		263,590				**(326,650)**			**63,060**

We conclude that the uncorrected misstatements are not material, individually or in aggregate to the financial statements as a whole.

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