

INDEPENDENT AUDITORS REPORT

TO THE MEMBERS OF

NATIONAL TYRE SERVICES LIMITED

Qualified Opinion

We have audited the financial statements of NATIONAL TYRE SERVICES LIMITED set out on pages 8 to 33, which comprise the statement of financial position as at 31 March 2021, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion except for the effects of the matters discussed in the basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of NATIONAL TYRE SERVICES LIMITED as at 31 March 2021, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis of Qualified Opinion

Non-compliance with International Accounting Standard 21 (IAS 21), Effects of Changes in Foreign Exchange Rates

Prior to 22 February 2019, the Zimbabwean economy was characterized by a multi-tiered pricing model. Under the model, a single product had different prices depending on the mode of payment, whether United States Dollar (US Dollar), Real Time Gross Settlement (RTGS), mobile money or bond notes. The multi-tiered pricing model was evidence of the emergence of a new currency, the Zimbabwe Dollar (ZWL), which was being used alongside these modes of payment. The new currency, the ZWL, was then formally acknowledged through the issue of Statutory Instrument 33 of 2019 (S.I 33) "Presidential Powers (Temporary Measures) Amendment of Reserve Bank of Zimbabwe Act and Real Time Gross Settlement Electronic Dollars (RTGS) Regulations, 2019. The statutory instrument prescribed parity between the US Dollar and the new local currency (the ZWL) up to the effective date of 22 February 2019.

The new functional currency (ZWL) was effective from 22 February 2019, instead of the fourth quarter of 2018 as evidenced by the separation of the bank accounts into Foreign Currency Accounts and non-Foreign Currency Accounts. The statutory instrument also prescribed how US Dollar balances were to be translated to the ZWL. The delay in recognizing the ZWL as a currency and the translation method of balances from US Dollar to ZWL resulted in a misstatement occurring on comparative financial statements and current year retained earnings opening balance of ZWL 14,347,379.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Zimbabwe, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key audit matters

Key audit matters are those matters that in our professional judgement were of most significance in our audit of financial statements. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters included in the basis for qualified opinion, the key matters below relate to the financial statements:-

Key audit matter	How our audit addressed the key audit matter
1. Impairment of plant and equipment The carrying amount of plant and equipment is material to the financial statements of the company. The directors identified the low-capacity utilization resulting from Covid 19 as the potential indicators of impairment of plant and equipment hence a key audit matter.	Our procedures included the following: <ul style="list-style-type: none">• Inspecting the physical condition of the plant and equipment.• Assessing the reasonableness of the significant assumptions used in coming up with the projected cash flows.• Testing the reasonableness of the discount rate used by reference to what has been determined by entities with similar operations and the company's borrowing rate.
2. Completeness and accuracy of revenue The Company operates from 14:(13) branches which are spread throughout the country. Revenue is also characterized by small value and high-volume transactions, the completeness and accuracy of which is dependent on automated information systems. Completeness and accuracy of revenue was thus considered a key audit matter.	We performed the following procedures: <ul style="list-style-type: none">• Reviewed and tested the Company's key controls over completeness and accurate recognition of revenue.• Performed analytical procedures on revenue, cost of sales and gross profit realized.• Vouched a sample of invoices and credit notes issued during the year.• Performed sequence tests on invoices and credit notes issued during the year.• We performed gap detection and duplication test.
3. Right of use asset and lease liability The completeness and valuation of the right of use asset and the related lease liability has been considered to be a key audit matter because of the significance of judgements applied in the determination of the valuation of the right of the use asset and the lease liability.	We performed the following procedures: <ul style="list-style-type: none">• Obtained an understanding of management's approach and assumptions of contracts containing leases.• Reviewed appropriateness of management's determination of lease term.• Evaluated the reliability of key data sources and assumptions used in determining the present value of future cash outflows.• Reviewed financial statement's disclosures to ensure compliance with the standard.• Assessed the disclosures included by management in the financial statements

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant for the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors intend to liquidate the Company or cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

The objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.


BDO Zimbabwe
Chartered Accountants

Harare
10 June 2021