

**AUE2602**

October/November 2013

CORPORATE GOVERNANCE IN ACCOUNTANCY

Duration 2 Hours

100 Marks

EXAMINERS

FIRST

SECOND

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PROF HJ THERON

MR CT MATSIMELA

Use of a non-programmable pocket calculator is permissible

Closed book examination

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THIS PAPER CONSISTS OF **FIVE (5)** PAGES

This paper consists of two case studies and includes the following main topics

PART	MAIN TOPIC	MARKS
1	Corporate governance and internal control over wages	50
2.	Internal control over credit sales and inventory	<u>50</u>
		<u>100</u>

NOTE:

Although the primary purpose of the examination is to test a candidate's knowledge and application of the subject matter, the examiner will consider the candidate's ability to organise and present such knowledge in acceptable written language

[TURN OVER]

QUESTION 1

50 marks

Speedsew Ltd is a Cape Town-based clothing manufacturing company in the South African textile industry. Speedsew is listed on the Johannesburg Stock Exchange (JSE). The board of directors is well aware of the fact that good governance in terms of the King III Report is compulsory for companies listed on the JSE, and as such has requested your review of the information provided below.

The board of directors and board committees

The CEO (chief executive officer) and chairman of the board, M Swart, provided you with the following list detailing the other directors on the board.

- B Black - Marketing director (an executive director)
- H Makina - IT director (an executive director)
- W Peters - Human-resources director (an executive director)
- P Gomba - Health and safety director (an executive director)

The board meets every two months to ensure it is able to make decisions rapidly due to volatility in the textile industry. Decisions include the approval of capital projects relating to the plant, and the appointment of new directors. The board has a nominations committee to assist with the appointment of new directors, as well as an audit committee. No other committees, nor a company secretary have been appointed by the board, and M Swart, the CEO, performs secretarial duties, when required.

Internal audit

Speedsew requires its internal audit department to perform, amongst others, the following functions:

- 1 Assisting the nominations committee in future with the appointment of a company secretary
- 2 Performing monthly reconciliations between production targets and finished textiles
- 3 Designing a production costing system for a new clothing line
- 4 Reviewing compliance with health and safety regulations for the workers at the plant
- 5 Investigating suspected instances of fraud during the weekly wage pay-out to Speedsew's large workforce

Weekly wage pay-outs and clocking system

Speedsew is particularly susceptible to fraud during wage pay-outs due to the large amounts of cash that are paid out to the workforce every week. The cash wages are handed out in envelopes by the shift foreman on Friday afternoons.

Another significant risk of fraud to the company is the clocking of fictitious hours. This occurs when employees illegally clock in on behalf of one another by swiping a fellow employee's clock card at the manufacturing plant entrance in his/her absence.

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REQUIRED

Marks

- 1.1** Based on the information presented in the scenario under the sub-heading “**The board of directors and board committees**”, **comment** in relation to the **requirements of sound corporate governance** in terms of the King III Report

Both **compliance** and **non-compliance** should be addressed in your answer

(14)

- 1.2** **Indicate** whether internal audit should, in accordance with King III, perform the functions listed in the scenario under the sub-heading “**Internal audit**”, and provide **brief reasons** for your answers

Present your answer in the following tabular format

Function nr	Yes/No (1mark)	Brief reason (1.5 marks)
1 Assisting nominations committee		
2 Performing monthly reconciliations		
3 Designing production costing system		
4 Reviewing compliance		
5 Investigating suspected fraud		

(12.5)

Communication skills

(1.5)

- 1.3** Advise the management of Speedsew on the **internal controls** that can be implemented with regard to the **wage packet preparation** and **pay-out of cash wages** to ensure good control over wages

Controls over unclaimed wages must also be included in your answer

(18)

- 1.4** Recommend an **alternative** to the physical cash pay-out that Speedsew could consider **as a means of paying wages** in order to reduce the risk of fraud and theft of cash

(1.5)

- 1.5** Provide an **example** of **biometric data** in a computerised clocking system and explain **one advantage** thereof

(2.5)

[TURN OVER]

QUESTION 2

50 marks

Big Clean (Pty) Limited is a large company supplying industrial cleaning products wholesale. The company started as a small cash sales enterprise five years ago, but has grown quickly into a major supplier to factories nationwide. Most of the revenue has lately been created by means of credit sales to a fixed approved client base. However, the company's system of internal control has not kept up with the company's growth, resulting in disputes with debtors about incorrect deliveries and account balances, amongst others.

The following is a brief description of the **functions** in an everyday credit sales transaction of Big Clean:

- 1 Once an order from an existing client is received, it is immediately recorded on an internal sales order (ISO) by the order clerk and sent to the warehouse for picking and despatch by the warehouse clerk.
- 2 Orders from existing clients are not individually checked and authorised by a credit controller as a long relationship of trust exists between the clients and Big Clean.
- 3 The warehouse clerk uses the ISO, which serves as picking slip, to pick goods from the warehouse and then sends the goods straight away to despatch.
- 4 The despatch clerk receives the goods from the warehouse, loads it directly onto the delivery vehicle and leaves for delivery.
- 5 The customer is given an invoice with delivery to indicate the goods delivered and the amount due.
- 6 The invoice clerk records the sales invoice in the sales journal, whereafter a debtor's statement is printed and posted to the customer.

Debtor's masterfile

The management of Big Clean realises the urgency to improve internal control over the debtor's masterfile in order to reduce the number of disputes over debtors' account balances.

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REQUIRED

Marks

- 2.1** For **each** of the functions in the everyday credit sales transactions (i.e. 1-6 above), **identify** two **weaknesses** in the internal controls

Present your answer in the following format

Weakness
Function 1 1 1 1 2
Function 2 2 1 2 2
Function 3 3 1 3 2
Function 4 4 1 4 2
Function 5 5 1 5 2
Function 6 6 1 6 2

Two **(2) marks** will be awarded for the correct presentation of your answer **(20)**

- 2.2** Advise the management of Big Clean of the controls that could be implemented over the **debtor's masterfile** in a computerised environment to ensure that only **authorised amendments are entered** into the system **(15)**

- 2.3** Describe the **physical controls** that should be implemented over **inventory** in the warehouse to prevent and detect damage, loss and theft, in a manual system **(15)**