



AUE2602

May/June 2013

CORPORATE GOVERNANCE IN ACCOUNTANCY

Duration 2 Hours

100 Marks

EXAMINERS .**FIRST****SECOND**MRS L GREBE
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	50
2.	Internal control in acquisitions and payments, 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 ability to organise and present such knowledge in acceptable written language.

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QUESTION 1

50 marks

Minetech (Pty) Limited is a large company in the mining industry in South Africa. The company intends to list on the Johannesburg Stock Exchange (JSE) in the near future. In order to do so, Minetech has to meet the recommendations of good governance of the King III Report, as compliance is compulsory for companies listed on the JSE.

Fraud in the company

Six months ago Minetech appeared in the business news headlines when the financial director was found guilty of defrauding the company of R 2,8 million. This was done by transferring money from the company's bank account via internet banking. The financial director was immediately dismissed.

No physical controls exist to prevent access to the computer onto which the company's internet banking software is loaded. All personnel in the finance department share a single password to gain unlimited access to the bank account.

Corporate governance in the company

As a result of the fraud scandal and Minetech's intentions to list on the JSE, the shareholders requested a review of the company's current corporate governance practices with reference to the King III Report recommendations.

The company secretary provided the following schedule of directors and committees:

1. Board of directors

M Lebetse	– Chairman and executive director
S Gouws	– Chief executive officer (CEO)
D Govender	– Marketing director (an executive director)
B Langa	– Human resources director (an executive director)
A Peters	– Information technology (IT) director (an executive director)
H Ally	– Risk director (an executive director)
L Pretorius CA(SA)	– Independent non-executive director

1.1 The position of financial director has been vacant for 6 months after the previous director's dismissal. The CEO, S Gouws is in the process of interviewing candidates and will in due course appoint the new financial director.

1.2 The board of directors meets twice a year to accommodate L Pretorius who lives abroad and does not have the time to travel more regularly to South Africa for meetings.

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2. Board committees

The company has two board committees. an audit committee and a risk committee

2.1 Audit committee

M Lebate (chairman of the audit committee)
L Pretorius CA(SA)
A Peters

The audit committee meets twice a year. The internal auditors always attend and take part in these meetings, whilst the external auditors do not attend any of the meetings. A Peters has extensive IT experience and knows Minetech's systems well.

2.2 Risk committee

M Lebate (chairman of the risk committee)
H Ally

The risk committee knows the risks that the business face and has not identified any new threats that would necessitate a review of the risk management plan and process of the company.

REQUIRED

Marks

1.1 Comment on the information provided in relation to the **requirements of sound corporate governance** in terms of the King III Report.

Present your answer under the following headings

1. Board of directors: composition and appointments (4 aspects x 1.5)
2. Board of directors: meetings (2 aspects x 1.5)
3. Audit committee: composition and appointments (3 aspects x 1.5)
4. Audit committee: meetings (3 aspects x 1.5)
5. Risk committee: composition and appointments (2 aspects x 1.5)
6. General remarks (2 aspects x 1.5)

Both **compliance** and **non-compliance** should be addressed in your answer. One mark will be awarded for the correct presentation of your answer.

(25)

1.2 Describe the **general physical access controls** that Minetech should implement to control **access to the computer** onto which the company's internet banking software is loaded in a **computerised environment**.

(15)

1.3 Describe the **password controls** as part of good logical access control that Minetech should implement to prevent the theft of money due to unauthorised access to the company's bank account in a **computerised environment**.

Note that your answer should only address password controls

(10)

[TURN OVER]

QUESTION 2

50 marks

You are part of the internal audit team of The Family Store Limited, a large general dealer in South Africa. On review of the current year financial statements the external auditors reported material discrepancies between physical inventory on hand and perpetual inventory in the financial records. As a result, the financial director requested internal audit to perform an investigation into the effectiveness of the system of internal control over the **ordering of goods**, as an important function in the purchasing of inventory for the company.

Ordering of goods

You identified the following **risks** in the **ordering of goods** function which could occur due to weaknesses in the system of internal control:

- 1 The ordering of incorrect or unnecessary goods, resulting in liquidity problems and wastage.
- 2 The ordering of unauthorised goods resulting in losses to the company through fraud.
- 3 Obtaining of inferior quality goods.
- 4 Paying unnecessarily high prices for goods ordered.
- 5 Orders placed with suppliers that are not filled / not timeously filled.
- 6 Order forms that are misused, for example for placing orders for private purchases.

Creditors masterfile

Management decided to implement a new **computerised creditors masterfile** as part of the improvement of internal controls over the ordering of goods and suppliers in particular. This would prevent, amongst others, employees from creating fictitious suppliers to conceal theft during the ordering of goods.

Year end inventory count

In addition to the above measures taken by the company, the external auditors also recommended that the company review and improve its **year end inventory count** procedures in order to establish accurate inventory quantities at year end.

REQUIRED

Marks

- 2.1 Advise management of the **internal controls (in a manual system)** that should be implemented to mitigate the risks in the **ordering of goods** function that you identified in 1-6 above.

Present your answer in the following format:

Risk no.	Internal control
1.	
2.	
3.	
4.	
5.	
6.	

(15)

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REQUIRED	Marks
2.2 Describe the controls that should be implemented over the new creditors masterfile in a computerised environment .	(15)
2.3 Describe the procedures which employees should follow when conducting a physical year end inventory count as part of good internal control over inventory	(20)