


**AUE2602
AUE202M**

May/June 2014

CORPORATE GOVERNANCE IN ACCOUNTANCY

Duration 2 Hours

100 Marks

 EXAMINERS
 FIRST
 SECOND

 MRS N COETZEE
 PROF HJ THERON

Use of a non-programmable pocket calculator is permissible

Closed book examination

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THIS PAPER CONSISTS OF **SIX (6)** PAGES

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

PART	MAIN TOPIC	MARKS
1.	Corporate governance (Only AUE2602 Students)	25
2.	Internal control in payroll and personnel cycle (Both AUE2602 and AUE202M students)	25
3.	Internal control in the revenue and receipts cycle and acquisitions and payments cycle (Both AUE2602 and AUE202M students)	50
4.	The audit of the acquisition of vehicles (Only AUE202M students)	25

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

[TURN OVER]

QUESTION 1 (Only AUE2602 students)

25 marks

Sew & Sew (Pty) Ltd (hereafter referred to as S&S) is a producer of the latest clothing fashions for the retail market. Mr Roka, the CEO, has heard of the King Report, and the advantages that it could provide for his company. He heard that the AUE2602 students have studied the King III Report and he therefore approached you to help him with the implementation of good corporate governance for S&S.

A Board of Directors and a Risk Committee has been established.

1. Board of Directors

- | | |
|-------------|---|
| Ms Soom | - Chairman and an executive director |
| Mr Roka | - Chief Executive Officer (CEO) |
| Ms Maroko | - Financial director (an executive director) |
| Ms Kopsfeld | - Human resources director (an executive director) Appointed two months ago by Mr Roka |
| Mr Needle | - Marketing director (an executive director) |
| Mr Harane | - Information technology (IT) director (an executive director) |
| Mr Zip | - Risk director (an executive director) He will also act as the company secretary. He has extensive risk management experience. |
| Mr Qult | - Independent non-executive director |

1.1 The Board of Directors will meet once a year for a two-day session to discuss all important issues and committees of the company.

1.2 Mr Needle will arrange for the meeting to take place at his brother's game farm and conference facilities in the Limpopo province. Mr Needle's brother charges S&S double the regular rates and then pays a "kick-back" to Mr Needle.

2. Risk Committee

Mr Roka - Chairman of the risk committee
Mr Zip

The risk committee knows the risks that the business faces. It has not identified any additional risks that would necessitate a review of the risk management plan and processes of the company.

3. Audit Committee

Mr Roka is aware that an Audit Committee should be appointed, but he does not understand the King III Report requirements. He has therefore asked you to help him with establishing the audit committee.

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REQUIRED

Marks

- 1.1** **Comment** on the Board of Directors in relation to the **requirements of sound corporate governance** in terms of the King III Report

Present your answer under the following headings

- a) Board of directors composition and appointments (4 comments)
- b) Board of directors meetings (1 comment)
- c) Risk committee composition and appointments (2 comments)
- d) General remarks (4 comments)

(16½)

Please note:

- Both **compliance** and **non-compliance** should be addressed in your answer
- Communication, logic, structure and layout

(1)

- 1.2** Provide Mr Roka with the necessary information to establish an **Audit Committee** which **complies with the King III Report** requirements

Please note:

Present your answer addressing the following queries of Mr Roka

- a) Who is allowed to be the **chairperson** of the audit committee? (1½ marks)
- b) What is the **minimum number of members** that should form the audit committee? (1½ marks)
- c) What is the **minimum number of meetings** that the audit committee should have each year? (1½ marks)
- d) Name **two functions** this committee should perform (3 marks)

(7½)

QUESTION 2 (Both AUE2602 and AUE202M students)

25 Marks

Dig Deep Ltd (hereafter referred to as Dig Deep), is a mining company and has a workforce of about 5 500 workers, many of whom are migrant workers from neighbouring countries of South Africa. The company has a formal risk assessment process which includes a risk committee that meets twice a year. The committee identifies and assesses risks faced by the company. The Risk Committee then considers whether the risks are being appropriately responded to. The **risks relating to human resources** are always an item for discussion on the agenda.

Wages system:

Complete wage records are kept by the company at the administration building. Each worker receives a weekly cash wage that is paid out by the pay clerk at a central pay point. Weaknesses exist in the internal controls over unclaimed wages, resulting in financial losses suffered by Dig Deep. Employee details are updated from time-to-time on the **employee masterfile**.

[TURN OVER]

REQUIRED

Marks

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|------------|--|-------------|
| 2 1 | Briefly describe four risks which a company such as Dig Deep Ltd might face relating to its workforce | (6) |
| 2 2 | Describe the internal controls that should be implemented to ensure good control over unclaimed wages at Dig Deep Ltd | (9) |
| 2.3 | Describe the controls that should be implemented when updating the employee's masterfile in a computerised environment . Limit your answer to updating existing employee data | (10) |

QUESTION 3 (Both AUE2602 and AUE202M students)

50 Marks

Silver Linings (Pty) Ltd (hereafter referred to as Silver Linings) is a company that provides security services, such as the secure transport of cash

Accounting system:

The company's accounting systems are located on a local area network (LAN) and, due to the nature of the company's business, contain a fair amount of sensitive information

Internal controls in the recording of cash receipts from debtors section

During the current year, Mr B Cooper stole some cash received from debtors. As a result the total of the **day's recorded cash** did not agree with the **actual cash on hand**. The management of Silver Linings requested that you advise them on the internal controls that can be implemented in the manual "**recording of cash receipts from debtors**" to mitigate or eliminate the risk that cash deposits from debtors may never be recorded or may not be recorded timeously

Acquisitions and Payments

Ms J Lawrence is a new employee in Silver Linings. Ms Lawrence requires help with the various functions and documents in the acquisitions and payment cycle. The following functions and source documents have been identified

Functions:

Ordering of goods	Receiving of goods
Recording of purchases	Payment preparation
Preparing the cheque and recording	

Source documents:

Credit note	Supplier Delivery Note
Creditors' statements	Cheque
Purchase Invoice	Goods received note
Returned paid cheque	Requisition
Bank statement	Cheque requisition
Purchase order form	Remittance advice

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REQUIRED	Marks
3.1 Briefly describe the controls over passwords that should be in operation to ensure good control over the LAN at Silver Linings (Pty) Ltd	(14)
3.2 In addition to the password controls in 3.1 above, describe four supplementary (additional) access controls that should be in place at Silver Linings (Pty) Ltd for the protection of the accounting system	(6)
3.3 Describe the internal controls that management should implement in the manual accounting system of “ recording of cash receipts from debtors ” to mitigate or eliminate the risk that payments received from debtors may never be recorded	(12)
3.4 Match the documents to the different functions in the acquisitions and payments cycle , in assistance of Ms J Lawrence	(18)

QUESTION 4 (Only AUE202M students) 25 Marks

You are part of the audit team performing the audit of LOC Limited for the year ended 31 March 2014. The Financial Director Mr Irvin Jordan presented you with the draft financial statements as at year-end. You were allocated the non-current assets and non-current liabilities section to audit. The following note regarding **property, plant and equipment** appear in the draft financial statements:

PROPERTY, PLANT AND EQUIPMENT

	Opening balance	Additions	Disposals	Closing balance
Cost	R	R	R	R
Furniture, fittings and office equipment	8,424,754	-	-	8,424,754
Motor vehicles	12,071,639	1,710,002	-	13,781,641
Total cost	20,496,393	1,710,002	-	22,206,395

	Opening balance	Current year	Disposals	Closing balance
Accumulated depreciation	R	R	R	R
Furniture, fittings and office equipment	7,088,239	427,224	-	7,515,463
Motor vehicles	10,833,310	224,666	-	11,057,976
Total accumulated depreciation	17,921,549	651,890	-	18,573,439

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NON-CURRENT LIABILITIES

During your audit of LOC Limited you come across the following journal with regards to the financing of the motor vehicles acquired

Motor vehicles	Dr	1 710 002 00
Long term loan (CDE Bank)	Cr	1 710 002 00

The loan bears interest at 12.5% per annum

REQUIRED

Marks

- | | | |
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| 4.1 | Describe the substantive procedures you will perform to audit the acquisition of the motor vehicles during the year | (13) |
| 4.2 | Describe the substantive procedures you will perform to audit the long term loan at year end | (12) |