

**AUE2602**

October/November 2015

CORPORATE GOVERNANCE IN ACCOUNTANCY

Duration : 2 Hours

100 Marks

EXAMINATION PANEL AS APPOINTED BY THE DEPARTMENT.

Use of a non-programmable pocket calculator is permissible.

Closed book examination.

This examination question paper remains the property of the University of South Africa and may not be removed from the examination venue.

THIS PAPER CONSISTS OF **SEVEN (7)** PAGES.

This paper consists of the following questions and main topics:

QUESTION	MAIN TOPIC	MARKS
1	Corporate governance and internal control	50
2	Internal control in the production and inventory, sales and revenue, payroll and personnel, and acquisition and payment cycles	50
		100
		===

NOTE:

Although the primary purpose of the examination is to test your knowledge and application of the subject matter, your ability to organise and present such knowledge in written language of an acceptable standard will be taken into consideration by the examiners.

[TURN OVER]

QUESTION 1

50 MARKS

CGC (Pty) Ltd (hereafter referred to as “CGC”) is a property development company situated in Johannesburg, Gauteng. CGC specialises in developing shopping centres and then letting shops to tenants.

CGC has grown significantly during the last couple of years. To obtain additional capital for developments, the board of CGC is investigating the option to list the company’s equity on the JSE (previously named Johannesburg Stock Exchange). In order to do so, CGC has to meet the recommendations of good governance of the King III Report, as compliance is compulsory for companies listed on the JSE.

You obtained the following information relating to the board of directors and sub-committees from the annual financial statements of CGC for the year ended 31 December 2014.

Board of directors

<u>Director</u>	<u>Position</u>	<u>Additional information</u>
M Bricks	Chief Executive Officer (CEO)	M Bricks is 55 years old and has a passion for the construction industry.
F Plaster	Independent non-executive chairman	F Plaster is 60 years old and serves as a non-executive director on the board of directors of other construction companies in South Africa as well. None of these companies have any dealings or relationships with CGC.
G Tiles	Non-executive director	G Tiles is 59 years old and has a degree in civil engineering. He has currently no financial interest in or business relationship with CGC.
H Concre	Risk director (executive director)	H Concre is 38 years old and holds a postgraduate diploma in risk management.
K Landsdain	Marketing director (executive director)	K Landsdain is 44 years old and obtained his degree in marketing from the University of South Africa.
S Deeds	Non-executive director	S Deeds is 42 years old and the son of the founder of CGC. He owns 15% of the shareholding of CGC.
L Buildt	Non-executive director	L Buildt is a CA(SA) and he used to be the financial director of CGC until he retired a year ago.
W Gable	Information technology (IT) director (executive director)	W Gable is 35 years old and completed her Bachelor degree of Information Technology last year.

[TURN OVER]

The board of directors meet every four months on request of S Deeds who lives abroad and does not want to travel to South Africa more often.

Risk committee

The Risk committee consists of the following members:

L Buildt (chairman)
F Plaster
G Tiles
H Concre
W Gable

Company secretary

No company secretary has been appointed and W Gable carries out the duties of the company secretary until a formal appointment has been made.

Internal audit

You obtained the internal audit report for the financial year, and noticed that the internal audit department identified that no physical controls exist to prevent access to the computer onto which the company's internet banking software is loaded. However, the report does indicate that there are sufficient controls controlling access of visitors from outside the company to the separate IT building. They also identified that all personnel in the finance department share a single password to gain unlimited access to the bank account.

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

1. Assisting with the review of the internal controls implemented in the payment of suppliers as part of the purchases cycle.
2. Performing a review of the current project, the Hills Mall being developed in Centurion, by comparing the actual spending to the approved capital budget.
3. Performing a review of the fixed asset register of CGC and to ensure that it is complete.
4. The chairman of the audit committee requested that the head of the internal audit department make a presentation to the board of directors on the laws and regulations that govern the company and its operations, highlighting any areas where laws and regulations are not complied with.

[TURN OVER]

REQUIRED

Marks

- 1.1** **Comment** on the information provided about 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 (3 comments)
- d) Company secretary (2 comments)

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

(15)
(1)

- 1.2** **Indicate** in terms of the recommendations of the King III Report, giving brief reasons whether M Bricks and G Tiles are eligible for appointment as members to the audit committee.

(3)

- 1.3** **Indicate** whether the internal audit department should, in accordance with the King III Report, perform the functions listed in **1- 4** in the scenario, and provide **brief reasons** for your answers.

(6)

Present your answer in the following tabular format:

Function number	Should the function be performed? Yes/No (½ mark)	Brief reason (1 mark)
1		
2		
3		
4		

Communication, logic, structure and presentation.

(1½)

- 1.4** **Describe** the additional **general physical access controls** that CGC should implement to control **access to the computer** onto which the company's internet banking software is loaded.

(10½)

Communication, logic, structure and presentation.

(½)

[TURN OVER]

REQUIRED (continued)

Marks

- 1.5** **Describe** the **password controls** as part of good logical access control that CGC should implement to prevent the theft of money due to unauthorised access to the company's bank account in a **computerised environment**. **(12)**

Note that your answer should only deal with password controls.

Communication, logic, structure and presentation. **(½)**

QUESTION 2

50 MARKS

Bags Galore (Pty) Ltd (hereafter referred to as "Bags Galore") sells handbags from all the popular brand names such as Guess, Gucci, Prada, Louis Vuitton etc. Bags Galore opened its doors two months ago and purchases inventory from different suppliers across South Africa.

The directors of Bags Galore are committed to good corporate governance. During a recent risk committee meeting, they identified the following risks relating to the **acquisitions and payments cycle**, specifically in the **ordering of goods** function:

- Ordering incorrect or unnecessary goods, resulting in liquidity problems.
- Ordering unauthorised goods resulting in losses to the company through fraud.
- Requisitions not acted upon or orders not placed timeously or not at all.
- Obtaining inferior quality goods.
- Paying unnecessarily high prices for goods.
- Orders placed with suppliers not filled/not filled timeously.
- Order forms misused e.g. for placing orders for private purchases.

Inventory

Due to the high value of the inventory of Bags Galore, monthly inventory counts are performed by the warehouse employees.

Personnel

Bags Galore is expanding and therefore they are employing more personnel. Management is in the process of designing appropriate internal controls to ensure that only valid new employees are added to the masterfile and only valid changes are made to the employee masterfile.

[TURN OVER]

Credit sales

The following is a brief description of the functions in an everyday credit sales transaction of Bags Galore:

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. 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.
3. The despatch clerk receives the goods from the warehouse, loads it directly onto the delivery vehicle and leaves for delivery.
4. The customer is given an invoice with delivery to indicate the goods delivered and the amount due.

REQUIRED

Marks

- | | | |
|------------|---|--------------|
| 2.1 | Describe one internal control for each of the risks identified by the risk committee in the acquisitions and purchases cycle , specifically in the ordering of goods function that Bags Galore should implement to mitigate those risks. | (10½) |
| | Communication, logic, structure and presentation. | (½) |
| 2.2 | List four (4) limitations of internal control that could threaten Bags Galore's objectives from being achieved. | (4) |
| 2.3 | Describe the procedures to be followed when conducting a monthly inventory count at Bags Galore. | (18) |
| | Communication, logic, structure and presentation. | (½) |
| 2.4 | Describe six (6) internal controls that management should design and implement to ensure that only valid new employees are added to the masterfile and only valid changes are made to the employee masterfile . | (9) |
| | Communication, logic, structure and presentation. | (½) |

[TURN OVER]

REQUIRED (continued)

Marks

- 2.5** For **each** of the functions in the everyday credit sales transactions listed in 1-4 in the scenario, **identify one (1) weakness** in the internal control. **(6)**

Present your answer in the following format:

Function	Weaknesses (1½ marks per weakness)
1	
2	
3	
4	

Communication, logic, structure and presentation. **(1)**