



AUE2602

October/November 2017

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

[TURN OVER]

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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 revenue and receipts cycle	50
2	Acquisition and payments cycle, inventory and production cycle and payroll and personnel cycle	50

		<u>100</u>

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

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QUESTION 1

50 marks

Camping Corner Ltd (hereafter referred to as "Camping") manufactures and sells camping goods such as tents and sleeping bags. They have one factory in Limpopo and various retail stores in all the provinces. They have been listed on the JSE since 2005.

1. Corporate governance

The following individuals attended the last meeting of the board of directors for the 2017 financial year:

#	Name	Additional information
1	Mr C Coleman	Chairman and non-executive director
2	Mrs K Klein	Chief executive officer and CA(SA)
3	Ms P Kgasago	Finance director and CA(SA)
4	Mr S Smith	Non-executive director, CA(SA) and former chairman of the board who retired four years ago
5	Mr S Sepelane	Non-executive director and newly qualified CA(SA), has no connection to Camping
6	Ms T Mogale	Company secretary

The following points are extracts from the directors' meeting:

- A Mr S Sepelane brought the new King IV report to the other directors' attention. He would like to set up a meeting to discuss the impact of the early adoption of the new report on the Board of directors' committees.
- B Mr C Coleman informed the board of directors of his intention to resign in 2018 and retire to his beach house.
- C Ms P Kgasago informed the board of declining a possible contract relating to the import of material for the manufacturing of tents. The procurement manager was approached by an overseas company with the possible contract. The procurement manager then informed Ms Kgasago. Ms Kgasago contacted the overseas company, and they mentioned to her that they would make it "worth her while" if she assisted them in winning the contract. Upon further research of the company, Ms Kgasago found they are involved in litigation relating to pollution at their manufacturing plants. Based on the information gathered, the contract was not accepted. This is the first opportunity Ms Kgasago had to bring the matter to the attention of the board of directors.

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2. Revenue and Receipts

The recent internal audit of the revenue and receipts cycle of Camping, has indicated that there are weaknesses in the process. In order to identify the possible areas of concern, the following description of the process for the receiving of telephonic and email orders was obtained

- a The company's systems, including the revenue and receipts cycle, are computerised
- b There is only one email inbox used by the four sales order clerks. In addition, there is a central customer order telephone line, answered by whichever sales order clerk is available. Each sales order clerk has their own terminal connected to the company's local area network (LAN), however, they make use of a shared username and password
- c On receipt of a customer order, whether telephonically or via email, the sales order clerk first access the masterfile from their terminal to confirm customer details such as name, account number and delivery address
- d If an order is received via email, the sales order clerk will scrutinise the customer order to confirm that it has sufficient detail for example, description of goods is correct, quantity ordered is clear. Having done this, the sales order clerk emails the order to the warehouse administration office
- e If an order is received telephonically, the sales order clerk will type the order and read it back to the customer to confirm the correctness. The sales order clerk will then email the order to the warehouse administration office
- f If an order is received from a person or a company who is not on the debtors' masterfile, or if someone phones in wishing to open an account, the sales order clerk phones the potential customer and introduces himself or herself. At the same time the sales order clerk obtains the customer's details and agrees credit terms and limits with the customer. Company policy does not allow credit to be extended beyond R 25 000 and 60 days
- g As the new customer gives the details over the phone, the sales order clerk records them carefully on a hardcopy, sequenced and pre-numbered masterfile amendment form. All details are confirmed with the customer before ending the conversation. The sales clerk then accesses the "masterfile amendment module" in the revenue and receipts application software and enters the new customer onto the debtors' masterfile

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- | REQUIRED | Marks |
|---|-------|
| 1.1 Based on the concerns raised by Mr S Sepelane under the corporate governance section, list the FIVE (5) committees that the Board of directors of Camping Corner Ltd should consider implementing in accordance with the King IV Report | (7½) |
| 1.2 Considering Mr C Coleman's intention to resign | |
| 1.2.1 Name the committee of the Board of directors that is usually responsible for succession planning , AND | (1½) |
| 1.2.2 Discuss ONE (1) other key responsibility of this committee | (1½) |
| 1.3 Comment on the conduct of Ms P Kgasago with regards to the possible new contract for the import of materials taking into consideration the requirements of section 76 of the Companies Act , no 71 of 2008 Standards of director's conduct | (4½) |
| 1.4 For the identified individuals' numbers 3-6 who attended the last board meeting, indicate whether or not they would be eligible to serve on the audit committee AND provide a reason for your conclusion | (10) |

Present your answer in the following format

#	Name	Eligible Yes/No (1 each)	Reason (1½ each)
<i>Example: 1</i>	<i>Example: Mr C Coleman</i>	<i>Example: No</i>	<i>Example: The chairman of the board of directors should not be a member of the audit committee</i>
3			
4			
5			
6			

- Number 1 is included above as an example and no marks will be awarded for this
 - Two presentation marks will be awarded if the answer is presented in the required format, and for communication, logical reasoning and structure
- (2)

[TURN OVER]

REQUIRED (continued)

Marks

- 1.5 Consider the information under revenue and receipts **Identify AND explain any SEVEN (7) weaknesses** found in the **revenue and receipts cycle** (a-g) at Camping Corner Ltd as described in the scenario Limit your answer to the ordering function

Note:

- You do not need to address the creditworthiness of customers in your answer
- You are not required to make recommendations to address the weaknesses

(21)

Present your answer in the following table format

Weakness	Explanation
Example: <i>There is inadequate control over the receipt and distribution of orders coming into the business</i>	Example: <i>As there is no record of who is handling which order, it is impossible to isolate responsibility for any orders that are lost/not acted upon.</i>

- No marks will be given for the example provided
- Two presentation marks will be awarded if the answer is presented in the required format, and for communication, logical reasoning and structure

(2)

[TURN OVER]

QUESTION 2

50 marks

Justice SA (Pty) Ltd manufactures home security and safety products, such as alarm systems, safety gates and burglar bars

As the company is not performing as well as expected, management has decided to make some changes in the various business cycles of the company. Mr Arthur Curry was recently appointed as the risk manager and have implemented a number of changes in the operations of the company with the intention of mitigating risks he identified. You have been appointed to assist Mr Curry with his duties.

1. Acquisition and payments cycle

Mr Curry is aware that there are five functions in the acquisition and payments cycle. He is not sure what they are.

2. Receiving of goods

Mr Curry established a designated secure area in the warehouse, to receive goods that was ordered by the order department. Only necessary and relevant employees have access cards to gain access to this section. Mr Curry is not aware of any other internal controls which can be implemented to mitigate the risks that arise when receiving goods.

3. Inventory and production

Mr Bruce Wayne, the finance director, is indecisive about the additional costs that arise from the implementation of internal controls in the warehouse. Mr Curry has explained to him that the controls are in place to mitigate the risks that exist within the warehouse. Mr Wayne asked for a list of these risks.

One of the controls Mr Curry introduced was that production can only commence after the production manager, Ms Diana Prince, has authorised the job cards. Ms Prince is uncertain what details the job card should contain and what procedures she must follow before authorising the job card.

4. Approval of hours worked

A biometric system has been purchased and implemented. Factory workers now have to "clock in" by scanning their thumbprint. The purchase and implementation of the biometric system can be considered a non-routine transaction.

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The payroll preparation function has also been computerised. Mr Curry is, however, concerned about the approval of hours worked as there has been a sharp increase in overtime payments. Mr Curry asked you to provide him with application controls that should be implemented to approve overtime before payroll preparations commence.

REQUIRED	Marks
2.1 List the FIVE (5) functions of the acquisitions and payments cycle	(5)
2.2 Describe EIGHT (8) additional manual (non-computerised) internal controls that should be in place to mitigate the risks in the receiving of goods function	(12)
2.3 Regarding the inventory and production information, list FIVE (5) risks that exist in the warehousing function	(7½)
2.4 Regarding Ms Prince's uncertainty in the production cycle	
2.4.1 Discuss the details that must be on the job card ; AND	(1½)
2.4.2 Discuss any THREE (3) procedures Ms Prince must follow before authorising the job card	(4½)
<ul style="list-style-type: none"> One and a half presentation marks will be awarded if the answer is presented in the required format, and for communication, logical reasoning and structure 	(1½)
2.5 With reference to the approval of hours worked information, explain what the term non-routine transaction mean	(3)
2.6 Describe TWO (2) advantages of using biometric data over an identification card or a clock card	(3)
2.7 Describe EIGHT (8) application controls that could be implemented to approve the hours captured during electronic timekeeping before payroll preparation can commence	(12)