

# AUE2602 2017 S2 – SOLUTION (UNISA)

1.

The five committees recommended by King:

- Audit
- Risk
- Remuneration
- Nomination
- Social and Ethics

1.2

The nomination committee is normally responsible for succession planning. They are responsible for:

- Nominating, electing & appointing members of the board,
- Succession planning, and
- Evaluation of performance of members.

1.3

Requirements for the standards of directors' conduct in terms of section 76 of the Companies Act:

Directors must:

- Not use the position of director
  - To gain a personal advantage
  - Knowingly cause harm to the company
- Communicate to the board any relevant information unless
  - It is immaterial
  - It is generally available to the public
  - The director is bound legally not to disclose certain information
- Exercise powers and functions of a director
  - In good faith and for proper purpose
  - In the best interests of the company
  - With a degree of care, skill and diligence reasonably expected of a director

By not entering into the contract, Ms Kgasago has complied with her duties to her company. She did not want to cause harm to the company through her association with the overseas company. She further did this even though she could have received benefits for herself from the overseas company.

She also informed the board of the situation as soon as possible.

As such, she has acted in good faith, in the best interests of the company, and with a degree of care, skill and diligence expected of her.

1.4

	Name	Eligible - Yes/No (1 mark each)	Reason (1½ marks each)
3	Ms P Kgasago	No	Every member of the audit committee must be a non-executive (not involved in the daily operations of the entity) and independent director (having no personal or financial interest in the entity).

			As the finance director, Ms Kgasago is neither non-executive nor independent and cannot be on the committee.
4	Mr S Smith	Yes	<p>In terms of the Companies Act, to be on the audit committee, a director must not be:</p> <ul style="list-style-type: none"> <li>Involved in the daily management of the company in the current or previous year</li> <li>A prescribed officer / employee of the company / related company in the last 3 years</li> <li>A material customer / supplier of the company</li> <li>Any person related to the above</li> </ul> <p>As four years have elapsed since his role as chairman, he would be eligible to form part of the committee. Also, having the required knowledge and skill (as a CA (SA)) further motivates that he could be on the committee.</p>
5	Mr S Sepelane	Yes	<p>Members as a whole should have financial literacy able to execute their duties in terms of King. Further, per the Companies act, at least one third of the members of the audit committee should have appropriate qualifications. As a CA (SA), he meets the qualification requirement. Also, because he has no connection to the entity and being non-executive, this further qualifies him as being able to be on the committee.</p>
6	Ms T Mogale	No	The company secretary is a prescribed officer of the company and not a director. Thus she cannot be on the audit committee.

#### 1.5

Weakness	Explanation
There is no assigning of authority and responsibility with the order clerks.	This is a weakness because no clerk is allocated the responsibility of the mailbox or telephone, and orders could thus get lost, duplicated or not get filled as no-one has clear accountability for them.
The clerks use the same username and password.	There is no segregation of duties nor possibility of isolation of responsibility since they are sharing the same credentials. This way, if something goes wrong, there would be no way to tell who is responsible or accountable for the issue(s).
There is no approval of the order.	Incomplete details, or incorrect / invalid order quantities / items may be made resulting in dissatisfied customers.
There is no written confirmation of the order.	When the telephone order is made, the clerk may not correctly hear the order, even when confirmed with the customer, and this could result in incorrect orders being made.
There is no separate department dealing with credit management.	The order clerk could provide credit to customers with whom they are related, providing favourable terms to benefit their related persons or themselves.
There is no separate independent individual updating the masterfile.	The order clerk may erroneously or fraudulently include customers on the masterfile.

There is no independent review of the masterfile amendments.	Masterfile amendments could be made erroneously affecting all future orders for that customer.
There is not appropriate access controls over the masterfile.	Because there is no specific individual responsible for the masterfile and because all the order clerks may access it, unauthorised or invalid changes could be made to the masterfile resulting in losses to the entity.
There is no segregation of duties.	The order clerks are performing too many incompatible functions (ordering, updating the masterfile) and this could result in fraud.
There is insufficient approval and authorisation in the department.	The order clerks could circumvent the system and make personal order or orders for related parties that could result in losses to the entity.

### 2.1

The functions of the acquisitions and payments cycle are:

- Supplier management
- Ordering
- Receiving
- Recording of purchases
- Payments & recording
- Adjustments

### 2.2

- A goods received note should be prepared that is:
  - Internally sequenced & sequence tested
  - Prepared from the purchase order
  - Checked against actual goods received from supplier
  - The actual goods received should be inspected for quality
  - The process should be supervised and checked
- The supplier delivery note should be:
  - Signed as proof of delivery
  - Matched to the details on the order and goods received note
  - Any discrepancies noted & followed up on

### 2.3

Risks in the inventory warehousing section:

- Goods received from suppliers are not transferred into warehouse timeously or at all
- Inventory is lost or stolen
- Inventory deteriorates in value
  - Inadequate physical controls (eg: gets wet)
  - Nature of goods (eg: foodstuffs, chemicals)
- No record is created of goods moved
- The goods or components issued are incorrect resulting in lost sales or production days
- Inventory shortages (or theft) are hidden

## 2.4

Job cards / production reports should document the stages of production for specific jobs / processes.

Before authorising the job card, Ms Prince should:

- test the sequence to confirm that there are no missing or duplicate numbers.
- match the job card to the production schedule or plan and follow up on any discrepancies.
- compare and reconcile the proposed job card to budgets.
- sign to authorise the job card.

## 2.5

Non-routine transactions are activities that occur periodically that are not part of the routine flow of transactions for example a grocery store selling a car.

## 2.6

Using biometric data prevents employees clocking in on behalf of other employees.

Using biometrics allows the system to automatically log the time of entry and exit so as to prevent fictitious hours being recorded.

Using biometrics prevents employees allowing random third parties to enter the premises on their behalf so access controls are enhanced.

## 2.7

Application controls that could be implemented to approve the hours captured during electronic timekeeping before payroll preparation can commence:

- All overtime should be approved in advance. The system should not allow overtime to be recorded unless it has been approved.
- A senior employee should prepare control sheets based on hours clocked.
- This should provide a summary / record of hours worked by staff and should be reconciled to the approved / budgeted hours worked.
- Any differences should be investigated and followed up.
- There could be reasonableness checks on the hours clocked, or limit checks to limit the maximum hours that can be recorded as worked.
  - These limits can be changed based on pre-approved hours worked.
- If the hours have not been pre-approved, the employee should be notified and the hours clocked should be further investigated.
- A senior employee should approve the final hours worked after all of the above has been double checked before sending it over to payroll preparation.