

**AUE2602**

May/June 2018

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.

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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, payroll and personnel cycle and internal controls	50
2	Internal controls, revenue and receipts cycle, acquisition and payments cycle, inventory and production cycle and finance and investment 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.

[TURN OVER]

QUESTION 1

50 marks

Ming Limited is a very large diamond mining company in the Northern Cape province of South Africa. The company is listed on the JSE. The board of directors wants to ensure that they still comply with the recommendations of the King IV Report and have asked you for some advice.

The company secretary, Miss Gold provided you with the following information.

The governing body

Ms Platinum	-	Chief executive officer (an executive director)
Mr Iron	-	Chair (an independent non-executive director)
Mr Diamond	-	Chief finance executive director (an executive director)
Ms Emerald	-	Marketing director (an executive director)
Mr Safire	-	Independent non-executive director
Ms Ruby	-	Personnel director (an executive director)
Mr Coal	-	Independent non-executive director
Mr Aluminium	-	Non-executive director. He is Ms Platinum's son-in-law

Mr Safire was appointed to the governing body during the course of the current financial year. He has considerable knowledge of mining operations and export regulations. A friend recently told him that there are some instances according to the Companies Act of 2008, whereby a director of a board can personally be held liable for losses made by the company. Mr Safire is now very concerned and has asked you to provide him with details.

Responsibilities and activities

Mr Iron contacted you for some advice. He is unsure who of the current available committees or individuals (i-x) should be responsible for the activities as set out below (a-g).

List of activities	Available committees or individuals
a) Oversight of the internal audit function	i) Governing body
b) Approval of the appointment of the chief audit executive (CAE)	ii) Ms Platinum (Chief executive officer)
c) Monitoring that the internal audit function follows an approved risk-based audit plan	iii) Social and ethics committee
d) Implementation and execution of effective compliance management	iv) Labour union
e) Leading the implementation and execution of approved strategy, policy and operational planning	v) Audit committee
f) Oversight of the evaluation of the performance of the governing body	vi) Mr Coal (Independent non-executive director)
g) Oversight and reporting on sustainable development	vii) Risk committee
	viii) Executive management
	ix) Mr Diamond (Chief finance executive director)
	x) Nominations committee

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Workforce

Ming Limited has a large workforce of about 7 000 employees, the majority being miners. Many of the miners are migrant workers from Namibia, Botswana, Mozambique and Zimbabwe. Because of this, Ming Limited's workforce has a high personnel turnover. All personnel salaries are automatically calculated and paid via electronic fund transfers (EFT) payments on a monthly basis.

Ming Limited's risk committee has recently identified and addressed all risks relating to the employee masterfile, timekeeping, payroll preparation and EFT payments of salaries. They have now approached you for assistance with identifying other risks relating to the human resources function of the payroll and personnel business cycle.

Warehouse

Ming Limited has implemented various internal controls in the warehouse given the financial value of the inventory kept. Ms Platinum has heard that internal controls can be classified as general or application controls, and that there are various components of internal control. You have sent her a list of the internal control components: control environment, control activities, risk assessment, monitoring of controls and information systems. Ms Platinum has asked you to help classify some of the current internal controls implemented in the warehouse.

1. The warehouse is monitored by close circuit television.
2. Mr Digger, the warehouse manager, has read-only access to the inventory masterfile.
3. Any adjustments to the inventory masterfile must be authorised by the warehouse supervisor and the financial accountant.
4. An employee caught stealing is dismissed if found guilty after an internal investigation.
5. Store requisitions are issued electronically. The program automatically provides a sequentially numbered document.

REQUIRED

Marks

- | | | |
|-----|---|-------|
| 1.1 | Regarding the information provided in the introduction and under the heading " the governing body ", describe any FOUR (4) aspects that Ming Limited comply with in terms of the recommendations of sound corporate governance as set out in the King IV Report. | (6) |
| 1.2 | Describe any SIX (6) instances where a director may be held liable to the company for any loss, damage or costs arising as a direct or indirect consequence of the directors' decisions, as indicated in Section 77 of the Companies Act of 2008. | (9) |
| 1.3 | With reference to the information under the heading " responsibilities and activities ", indicate for EACH of the activities listed (a-g) the main responsible committee or individual (i-x) . You are limited to name only ONE (1) committee or individual per activity. Each committee or individual may be used more than once. | (10½) |

[TURN OVER]

REQUIRED (continued)

Marks

- 1.4** With reference to the information under the heading “**workforce**” briefly describe FIVE (5) **additional risks** in the human resource function which a company such as Ming Limited might face. **(7½)**
- 1.5** With reference to the internal controls (1-6) provided under the heading “**warehouse**”, indicate:
- a)** for controls **1 – 2** if it is an **application or general control**, and provide an **explanation** for your answer, AND
 - b)** for controls **3 – 5** the **component** of internal control to which the control relates as provided in the scenario, and provide an **explanation** for your answer.

Present your answer in the following format:

Internal control	a) General or application (1½ each)	Explanation (1½ each)
1 CCTV cameras		
2 Masterfile access		

Internal control	b) Component of internal control (1½ each)	Explanation (1½ each)
3 Adjustments to masterfile		
4 Dismissal of employees caught stealing		
5 Sequenced store requisitions		

(15)

- Provide only ONE component for each internal control under numbers 3-5.
- 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

Taolo (Pty) Ltd (hereafter referred to as Taolo) is a growing wholesale business specialising in the distribution of beverages around the country.

Mr Molaodi (CA (SA)) is the current financial manager of Taolo and believes that good corporate governance and internal controls will carry the company into the future. He has therefore asked his internal audit department to assess the different business cycles separately and report back to him on their findings. Mr Molaodi wants to improve the internal controls to provide him with absolute assurance that the risks that threaten the objectives of the business will be adequately responded to.

Revenue and receipts cycle

Taolo makes use of a well-known standard accounting software package. This accounting system is fully integrated. Sales are made only on credit to approved customers. The internal audit department is concerned that the controls relating to the granting of credit terms and limits to new customers, are not sufficient.

Acquisitions and payments cycle

During the internal audit of the acquisitions and payments cycle, the following weaknesses, relating to the payment of creditors by electronic funds transfers (EFT), were identified:

1. It was noted that the software does not have the automatic logging function enabled for unsuccessful logon attempts.
2. The creditor's clerk will access the "prepare payment" module to prepare the EFT schedule of payments, after which he will select the "proceed" option. The creditor's section head will then access the "prepare payment" module and review the schedule for reasonableness. The creditor's section head will also make any changes he deems necessary.
3. The creditor's clerk will then select the "approve" option on the screen.
4. The bank's EFT software is loaded on all the computers in the finance department. The finance manager wants immediate access to the EFT software from any computer when necessary.
5. In order to access the EFT software, users require only a username and a password.
6. The username and password is shared by all employees that have access to the EFT software.
7. Only the finance manager has authorisation access to the EFT software to authorise the payment. He authorise payments as soon as he receives the request.
8. The creditors are paid directly from the main account of Taolo which resulted in the past to numerous erroneous payments to creditors.

Inventory

Mr Molaodi is planning to attend the year-end inventory count at Taolo's largest warehouse.

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Finance and investment cycle

Mr Molaodi is considering an investment in a company that specialises in the distribution of bottled water in Africa. Their head office is located in Lagos, Nigeria. He is ready to sign the contract without visiting the head office and without consulting a valuation specialist, as the owner seem to be a very honest individual and the financial statements show incredible growth. Mr Molaodi is eager to take advantage of this opportunity quickly. This will result in a large increase in Taolo's investments for the coming financial year. In order to finance the investment Mr Molaodi plans to make use of a bank loan.

REQUIRED

Marks

- 2.1 Describe the SIX (6) **limitations of internal control** to show Mr Molaodi that internal controls are not able to provide absolute assurance. (9)
- 2.2 With reference to the information provided under the heading "**revenue and receipts cycle**", describe any EIGHT (8) computerised and manual **internal controls** relating to the **granting of credit terms and limits for new customers**. (12)
- 2.3 For EACH of the weaknesses identified (1-8) under the heading "**acquisitions and payments cycle**", describe ONE (1) **internal control** that Taolo (Pty) Ltd should implement in order to address the weakness.

Please provide your answer in the following format:

Weakness	Internal control (1½ each)
Example: 1	Example: <i>The attempts to gain unauthorised access to the EFT software should be automatically logged and periodically reviewed.</i>
2	
3	
4	
5	
6	
7	
8	

(10½)

- Number 1 is included above as an example and no marks will be awarded for this.
- 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)

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REQUIRED (continued)

Marks

- 2.4** With reference to the information under the heading “**inventory**”, describe the preparation process for the year-end **inventory count** that Mr Taolo will attend.
- Present your answer under the following headings:
- a)** Planning and preparation **(7½)**
 - b)** Design of stationery **(4½)**
- You are not required to address inventory count procedures.
 - Two presentation marks will be awarded if the answer is presented in the required format, and for communication, logical reasoning and structure. **(2)**
- 2.5** With reference to the information under the heading “**finance and investment cycle**”, describe TWO (2) **major risks** relating to the possible **increase** in Taolo (Pty) Ltd’s **investments**. **(3)**