Tutorial Letter 201/2/2018

Corporate Governance in Accountancy

AUE2602

Semester 2

Department of Auditing

IMPORTANT INFORMATION:

KEY TO ASSIGNMENT 01 FOR THE SECOND SEMESTER 2018

BARCODE

Define tomorrow.

UNISA university of south africa

Assignment 01 – Second semester

1. 2 King IV Report (2016:45) principle 3 point 14
Jackson & Stent (2016:4/22 – 4/23)

Comment:
The governing body should oversee and monitor, on an ongoing basis, how the consequences of the organisation's activities and outputs affect its status as a responsible corporate citizen. The oversight and monitoring should be performed against measures and targets agreed with management in all of the following areas:

Option 1. Society is correct. This includes public health and safety; consumer protection; community development; and protection of human rights.
Option 2. Payroll is **incorrect** as it is not comprehensive enough. The King IV Report requires that the **workplace** should be taken into account, including employment equity; fair remuneration; and the safety, health, dignity and development of employees.
Option 3. Economy is correct. This includes economic transformation; prevention, detection and response to fraud and corruption; and responsible and transparent tax policy.
Option 4. Environment is correct. This includes responsibilities in respect of pollution and waste disposal and protection of biodiversity.

2. 2 King IV Report (2016:50) principle 7 point 8
Jackson & Stent (2016:4/27)

Comment:
The governing body should comprise a majority of non-executive members, most of whom should be independent. Option 2 is therefore the correct alternative.

3. 1 King IV Report (2016:56) principle 8 point 59
Jackson & Stent (2016:4/34)

Comment:
According to principle 8 point 59, options a, c, d, e and f need to be disclosed.

The audit committee's views on the process for determining the accounting principles to be applied in the annual financial statements (option e) is part of the significant matters it should disclose relating to the annual financial statements (principle 8 point 59.b).

Option b is not specifically identified by principle 8 point 59 as matters that should be disclosed. As disputes and dispute resolutions are normally of a sensitive nature, it should not be disclosed or discussed in an open forum. Therefore, option b is incorrect.

4. 2 Companies Act No 71 of 2008, section 76(3)
Jackson & Stent (2016:3/45 – 3/46)

Comment:
Option 2 is not a normal duty of a director as the financial director cannot be reasonably expected to know all environmental laws.

A director must not use the position of director to gain an advantage for him- or herself, or knowingly cause harm to the company; and must always act in the best interest of the company and communicate to the board any information that comes to his or her attention that might be relevant. Failure to comply with the standards of director's conduct as stated in options 1, 3 and 4 will therefore lead to the director being held liable.

5. 2 Companies Act No 71 of 2008, section 94
Jackson & Stent (2016:3/53 – 3/54)

Comment:
In terms of the Companies Act No 71 of 2008, it is not specifically required of private companies (option iii) to have an audit committee.

Public companies and state-owned companies must have an audit committee as per the Companies Act No. 71 of 2008. If a holding company is a public company or state-owned company and has an audit committee, its subsidiaries can also use this audit committee. As described in option (iv) the subsidiary will be required to have its own audit committee, as the audit committee functions will not be performed by the audit committee of the holding company.

6. 3 King IV Report (2016:65) principle 14 point 32
Jackson & Stent (2016:4/47 – 4/50)

Comment:
Only an overview of the main provisions of the policy is required, and not the complete remuneration policy (option 3). According to principle 14 point 32, the remuneration report should contain a background statement (option 1) as well as an overview of the main provisions of the remuneration policy (option 2). Option 4 relates to the implementation report, this is a different report and does not form part of the remuneration report.

7. 3 King IV Report (2016:53) principle 7 points 31, 34 and 36
Jackson & Stent (2016:4/30)

Comment:
The chair of the governing body should be a member of the nomination committee and may also be the chair of this committee. Option 3 is therefore correct.

Option 1. The King IV Report principle 7 point 36 states that the chair of the governing body should not be a member of the audit committee.

Option 2. The King IV Report principle 7 point 36 states that the chair of the governing body should not also be the chair of the audit committee, and may not even be a member of it.

Option 4. The King IV Report principle 7 point 36 states that the chair of the governing body may be a member of the committee responsible for risk governance and may also be its chair. However this is not a requirement and therefore option 3 is the most correct alternative.

8. 1 King IV Report (2016:57) principle 8 point 65
Jackson & Stent (2016:4/35)

Comment:
The **remuneration committee** should assist the board in its responsibility for setting and administering remuneration policies in the company's long-term interests.

Option 2. The **board** remains the responsible party for setting and administering the remuneration policies. The remuneration committee should only assist the board with their responsibility.

Option 3. The **nominations committee** would assist with identifying suitable members for the board.

Option 4. It is the **board's** responsibility to consider the risk management policy, and to plan and monitor the risk management process (principle 11). The board may delegate this function to the risk committee.

9. 3 King IV Report (2016:52) Principle 7 point 28
Jackson & Stent (2016:4/28 – 4/29)

Comment:
The King IV Report Principle 7 point 27 states that a non-executive director "may be categorised as independent if it concludes that there is no interest, position, association, or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or cause bias in decision-making in the best interest of the company." With regards to option 3, should a non-executive director receive remuneration that is contingent on the performance of the company, he may not be considered independent. (Principle 7 point 28i). Option 3 is therefore an applicable requirement.

Option 1. If a non-executive director was the designated external auditor responsible for performing the statutory audit for the company, or a key member of the audit team of the external audit firm, during the preceding three financial years, he may not be considered as independent. (Principle 7 point 28e).

Option 2. If a non-executive director is a significant or ongoing professional advisor to the company, he may not be considered as independent. (Principle 7 point 28f).

Option 4. Should a non-executive director have been in the employ of the company as any executive manager during the preceding three financial years, or he is a related party to such executive manager, he may not be considered independent. (Principle 7 point 28d). The King IV Report does not state that the director may not ever have been the CEO of the company.

10. 4 Jackson & Stent (2016:5/4)

Comment:
There is a shared responsibility for the internal control process; the directors, management and ordinary employees are all, in their own ways, responsible. Option 4 is therefore the correct alternative. Options 1, 2 and 3 does not indicate this shared responsibility and are therefore incorrect.

11. 4 Jackson & Stent (2016:5/5), section 3

Comment:
Option 4 is correct as it identifies all the objectives that effective internal controls aims to ensure.

Option 1. This is incorrect, as internal control is not intended to provide reasonable assurance about the entity's objective to maximise profits.

Option 2. Although this is a correct objective, it is not the only objective and therefore this option is not correct.

Option 3. Although this is a correct objective, it is not the only objective and therefore this option is not correct.

12. 2 Jackson & Stent (2014:8/27–8/41), sections 1-4
Study guide learning unit 2.3.2

Comment:
Option 2 (access control) is not an input application control to ensure **accuracy** in a computerised environment. Access control ensures the **validity (occurred and authorised)** of inputs in a computerised environment.

Option 1. **Sign checks** are programme controls where letters, digits or signs entered in a field are checked against valid characters or signs for that field for accuracy. For example, a minus sign (-) cannot be entered in a quantity order field.
Option 3. **Reasonableness and limit checks** are programme controls carried out by the computer to ensure that data entered falls within reasonable limits to ensure accuracy. For example, ordering goods over a fixed limit set in the inventory masterfile will be queried by the computer.
Option 4. **Alpha-numeric format checks** are programme controls to prevent alphabet letters being entered in numeric fields, and vice versa. For example, when entering an employee's identity number all digits must be numeric.

13. 1 Jackson & Stent (2016: 5/3)

Comment:
Management will set the objectives for the business; identify risks relating to the achievement of the objectives and implement controls to address those risks.

Option 1. **Late submission of a director's personal tax return:** This relates to directors in their personal capacity and not to the business.
Option 2. **Theft of assets:** This is a valid risk to a business that should be addressed by internal controls.
Option 3. **Non-compliance with laws and regulations:** This is a valid risk to a business and should be addressed by internal controls.
Option 4. **Fraud:** This is a valid risk to a business that should be addressed by internal controls.

14. 4 Jackson & Stent (2016:5/4–5/5)

Comment:
All the statements regarding internal control are correct, except for option 4. The possibility that procedures may become inadequate due to changes in conditions is in fact a **limitation of internal control** and option 4 is therefore the incorrect alternative.

15. 4 Jackson & Stent (2016:5/5–5/6)

Comment:
Options 1, 2 and 3 accurately list three of the five components of internal control. Segregation of duties (option 4) is not a control component on its own; it forms part of control activities.

16. 4 Jackson & Stent (2016:5/12–5/18)

Comment:
Options 1, 2 and 3 accurately list three of the five types of control activities. Document design (option 4) is not a control activity; it forms part of control environment.

17. 4 Jackson & Stent (2016:5/12)

Comment:
There are numerous control activities with different objectives and which are applied at different levels within the organisation. The options provided in 1, 2 and 3 can be used to categorise control activities, therefore option 4 (all of the above) is correct.

18. 1 Jackson & Stent (2016:5/13 – 5/15)

Comment:
The greatest threat to good segregation of duties is collusion. This is when management or employees collude (work together) intentionally with other individuals inside or outside of the company, to circumvent the internal controls. Option 1 is therefore correct.

Option 2. Management override of controls is a limitation of internal control. This is the possibility that a person responsible for exercising an internal control could abuse that responsibility. Good segregation of duties should be able to identify management override of controls. This option is therefore incorrect.

Option 3. Cost constraints is a limitation of internal control. This is the principle that the cost of an internal control may exceed the probable benefit thereof. This option is therefore incorrect.

Option 4. Carelessness on the part of an employee is a limitation of internal control and this option is therefore not correct.

19. 2 Jackson & Stent (2016:5/4), section 1.3

Comment:
Internal control is a dynamic process. It is essentially a response to the risks of operating a business; risks change, responses must change. Therefore, option 2 is correct.

Option 1. Internal control is not an effective method of addressing collusion, as employees may work together to circumvent the internal controls.

Option 3. There is a shared responsibility for the internal control process; the directors, management and ordinary employees are all, in their own ways, responsible.

Option 4. Internal control is not an effective method of addressing the risk of management override. Management override of controls is considered a limitation of internal control.

20. 1 Jackson & Stent (2016:1/17–1/18)

Comment:
Option 1 is the correct option to complete the sentence. **Completeness** means that all assets, liabilities, transactions or events, which should have been recorded, have been recorded. Completeness in this case, is achieved by confirming that all master amendment forms (MAF's) are logged and in sequence, i.e. all the MAF's have been captured.

Option 2. **Authorisation** relates to the occurrence assertion as well as the control objective of validity. A transaction may not be valid if not authorised.

Option 3. **Occurrence** means that a transaction or event which has been recorded, took place and pertains to the entity. In this case, it would mean to make selections from the log and to trace it to the MAF's to ensure that transactions that have been captured, did in fact occur.

Option 4. **Accuracy** means that amounts and other data relating to recorded transactions and events have been recorded appropriately.