

AUE2602 2013 S1 - QUESTION (UNISA)

QUESTION 1

50 marks

Minetech (Pty) Limited is a large company in the mining industry in South Africa. The company intends to list on the Johannesburg Stock Exchange (JSE) in the near future. In order to do so, Minetech has to meet the recommendations of good governance of the King III Report, as compliance is compulsory for companies listed on the JSE.

Fraud in the company

Six months ago Minetech appeared in the business news headlines when the financial director was found guilty of defrauding the company of R 2,8 million. This was done by transferring money from the company's bank account via internet banking. The financial director was immediately dismissed.

No physical controls exist to prevent access to the computer onto which the company's internet banking software is loaded. All personnel in the finance department share a single password to gain unlimited access to the bank account.

Corporate governance in the company

As a result of the fraud scandal and Minetech's intentions to list on the JSE, the shareholders requested a review of the company's current corporate governance practices with reference to the King III Report recommendations.

The company secretary provided the following schedule of directors and committees:

1. Board of directors

M Lebetse

S Gouws

D Govender

B Langa

A Peters

L Pretorius CA(SA)

- Chairman (and) executive director X independent non executive
- Chief executive officer (CEO) ✓ executive
- Marketing director (an executive director) ✓ executive
- Human resources director (an executive director) ✓
- Information technology (IT) director (an executive director) H Ally -
- Risk director (an executive director) ✓ b.k. executive
- Independent non-executive director ✓ no balance of power.

1.1 The position of financial director has been vacant for 6 months after the previous director's dismissal. The CEO, S Gouws is in the process of interviewing candidates and will in due course appoint the new financial director. X no CFO not according to King

1.2 The board of directors meets twice a year to accommodate L Pretorius who lives abroad and does not have the time to travel more regularly to South Africa for meetings.

- 4 times a year
- has to have time



5 Committees

1. Audit
2. Risk
3. remuneration
4. nomination
5. Social & Ethics

2. Board committees

The company has two board committees; an audit committee and a risk committee.

2.1 Audit committee

3 members
M Lebate (chairman of the audit committee) *not* should be independent

L Pretorius CA(SA) ✓

A Peters ✓

The audit committee meets twice a year. The internal auditors always attend and take part in these meetings, whilst the external auditors do not attend any of the meetings. A Peters has extensive IT experience and knows Minetech's systems well.

at least once a year with auditors.

2.2 Risk committee

at least 3 members execs and non execs
M Lebate (chairman of the risk committee)

H Ally

The risk committee knows the risks that the business face and has not identified any new threats that would necessitate a review of the risk management plan and process of the company.

REQUIRED

1.1 Comment on the information provided in relation to the requirements of sound corporate governance in terms of the King Report.

Present your answer under the following headings:

- | | |
|---|-----|
| 1. Board of directors: composition and appointments | (6) |
| 2. Board of directors: meetings | (3) |
| 3. Audit committee: composition and appointments | (4) |
| 4. Audit committee: meetings | (4) |
| 5. Risk committee: composition and appointments | (3) |
| 6. General remarks | (3) |

Both compliance and non-compliance should be addressed in your answer. Two marks will be awarded for the correct presentation of your answer. (2)

1.2 Describe the general physical access controls that Minetech should implement to control access to the computer onto which the company's internet banking software is loaded in a computerised environment. *camera, door* (15)

1.3 Describe the password controls as part of good logical access control that Minetech should implement to prevent the theft of money due to unauthorised access to the company's bank account in a computerised environment.

Note that your answer should only address password controls. (10)



QUESTION 2

50 marks

You are part of the internal audit team of The Family Store Limited, a large general dealer in South Africa. On review of the current year financial statements the external auditors reported material discrepancies between physical inventory on hand and perpetual inventory in the financial records. As a result, the financial director requested internal audit to perform an investigation into the effectiveness of the system of internal control over the **ordering of goods**, as an important function in the purchasing of inventory for the company.

Ordering of goods

You identified the following **risks** in the **ordering of goods** function which could occur due to weaknesses in the system of internal control:

1. The ordering of incorrect or unnecessary goods, resulting in liquidity problems and wastage. *no req.*
2. The ordering of unauthorised goods resulting in losses to the company through fraud.
3. Obtaining of inferior quality goods.
4. Paying unnecessarily high prices for goods ordered.
5. Orders placed with suppliers that are not filled / not timeously filled.
6. Order forms that are misused, for example for placing orders for private purchases.

Creditor's masterfile

Management decided to implement a new **computerised creditor's masterfile** as part of the improvement of internal controls over the ordering of goods and suppliers in particular. This would prevent, amongst others, employees from creating fictitious suppliers to conceal theft during the ordering of goods.

Year-end inventory count

In addition to the above measures taken by the company, the external auditors also recommended that the company review and improve its **year-end inventory count** procedures in order to establish accurate inventory quantities at year end.

REQUIRED

- 2.1 Advise management of the **internal controls (in a manual system)** that could be implemented to **mitigate the risks** that you identified. (15)
- 2.2 Describe the controls that should be implemented over the new **Creditors master file in a computerised environment**. (15)
NB: can ask in aug cycle.
- 2.3 Describe the procedures which employees should follow when **conducting a physical year-end inventory count** as part of good internal control over inventory (20) *15 points.*

AUE2602 2013 S2 - QUESTION (UNISA)

QUESTION 1

50 marks

Speedsew Ltd is a Cape Town-based clothing manufacturing company in the South African textile industry. Speedsew is listed on the Johannesburg Stock Exchange (JSE). The board of directors is well aware of the fact that good governance in terms of the King III Report is compulsory for companies listed on the JSE, and as such has requested your review of the information provided below.

The board of directors and board committees

The CEO (chief executive officer) and chairman of the board, M Swart, provided you with the following list detailing the other directors on the board:

- B Black - Marketing director (an executive director) ✓
- H Makina - IT director (an executive director) ✓
- W Peters - Human-resources director (an executive director) ✓
- P Gomba - Health and safety director (an executive director) ✓

king requires
bad + independent non executive directors
no balance
of power

The board meets every two months to ensure it is able to make decisions rapidly due to volatility in the textile industry. Decisions include the approval of capital projects relating to the plant, and the appointment of new directors. The board has a nominations committee to assist with the appointment of new directors, as well as an audit committee. No other committees, nor a company secretary have been appointed by the board, and M Swart, the CEO, performs secretarial duties, when required.

problem

5 committees

secretary not part of board

Internal audit

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

1. Assisting the nominations committee in future with the appointment of a company secretary *yes*
2. Performing monthly reconciliations between production targets and finished textiles *no*
3. Designing a production costing system for a new clothing line *no*
4. Reviewing compliance with health and safety regulations for the workers at the plant *yes*
5. Investigating suspected instances of fraud during the weekly wage pay-out to Speedsew's large workforce *yes*

Weekly wage pay-outs and clocking system

Speedsew is particularly susceptible to fraud during wage pay-outs due to the large amounts of cash that are paid out to the workforce every week. The cash wages are handed out in envelopes by the shift foreman on Friday afternoons.



Another significant risk of fraud to the company is the **clocking of fictitious hours**. This occurs when employees **illegally clock in on behalf of one another** by swiping a fellow employee's clock card at the manufacturing plant entrance in his/her absence.

REQUIRED

- 1.1** Based on the information presented in the scenario under the sub-heading "**The board of directors and board committees**", **comment** in relation to the **requirements of sound corporate governance** in terms of the King Report. (14)

Both **compliance and non-compliance** should be addressed in your answer.

- 1.2** **Indicate** whether internal audit should, in accordance with King, perform the functions listed in the scenario under the sub-heading "**Internal audit**", and provide **brief reasons** for your answers. (12.5)
Present your answer in the following tabular format: (1.5)
Communication skills

Function nr	Yes/No (1mark)	Brief reason (1.5 marks)
1. Assisting nominations committee	Yes	
2. Performing monthly reconciliations		
3. Designing production costing system		
4. Reviewing compliance		
5. Investigating suspected fraud		

- 1.3** Advise the management of Speedsew on the **intern... controls** that can be implemented with regard to the **wage packet preparation and pay-out of cash wages** to ensure good control over wages. (18)
Controls over unclaimed wages must also be included in your answer.
- 1.4** Recommend an **alternative** to the physical cash pay-out that Speedsew could consider as a **means of paying wages** in order to reduce the risk of fraud and theft of cash. (1.5)
EFT.
- 1.5** Provide an **example of biometric data** in a computerised clocking system and explain **one advantage** thereof. (2.5)

1. Fingerprint, voice recognition, retinal scan
- Make it for an individual.



QUESTION 2

50 marks

Big Clean (Pty) Limited is a large company supplying industrial cleaning products wholesale. The company started as a small cash sales enterprise five years ago, but has grown quickly into a major supplier to factories nationwide. Most of the revenue has lately been created by means of credit sales to a fixed approved client base. However, the company's system of internal control has not kept up with the company's growth, resulting in disputes with debtors about incorrect deliveries and account balances, amongst others.

The following is a brief description of the **functions** in an everyday credit sales transaction of Big Clean:

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. Orders from existing clients are not individually checked and authorised by a credit controller as a long relationship of trust exists between the clients and Big Clean.
3. 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.
4. The despatch clerk receives the goods from the warehouse, loads it directly onto the delivery vehicle and leaves for delivery.
5. The customer is given an invoice with delivery to indicate the goods delivered and the amount due.
6. The invoice clerk records the sales invoice in the sales journal, whereafter a debtor's statement is printed and posted to the customer.

Debtor's masterfile

The management of Big Clean realises the urgency to improve internal control over the debtor's masterfile in order to reduce the number of disputes over debtors' account balances.

REQUIRED

- 2.1 For each of the functions in the everyday credit sales transactions (i.e. 1-6 above), identify two weaknesses in the internal controls. (20)
Two (2) marks will be awarded for the presentation of your answer.
- 2.2 Advise the management of Big Clean of the controls that could be implemented over the debtor's masterfile in a computerised environment to ensure that only authorised amendments are entered into the system. (15)
- 2.3 Describe the physical controls that should be implemented over inventory in the warehouse to prevent and detect damage, loss and theft, in a manual system. (15)



AUE2602 2014 S1 – QUESTION (UNISA)

QUESTION 1

25 marks

Sew & Sew (Pty) Ltd (hereafter referred to as S&S) is a producer of the latest clothing fashions for the retail market. Mr Roka, the CEO, has heard of the King Report, and the advantages that it could provide for his company. He heard that the AUE2602 students have studied the King Report and he therefore approached you to help him with the implementation of good corporate governance for S&S.

A Board of Directors and a Risk Committee has been established

1. Board of Directors

Ms Soom	-	Chairman and an executive director
Mr Roka	-	Chief Executive Officer (CEO)
Ms Maroko	-	Financial director (an executive director)
Ms Kop	-	Human resources director (an executive director) Appointed two months ago by Mr Roka
Mr Needle	-	Marketing director (an executive director)
Mr Harane	-	Information technology (IT) director (an executive director)
Mr Zip	-	Risk director (an executive director) He will also act as the company Secretary. He has extensive risk management experience
Mr Quilt	-	Independent non-executive director

- 1.1 The Board of Director's will meet once a year for a two-day session to discuss all important issues and committees of the company
- 1.2 Mr Needle will arrange for the meeting to take place at his brother's game farm and conference facilities in the Limpopo province. Mr Needle's brother charges S&S double the regular rates and then pays a "kick-back" to Mr Needle.

2. Risk Committee

Mr Roka	-	Chairman of the risk committee
Mr Zip		

The risk committee knows the risks that the business faces. It has not identified any additional risks that would necessitate a review of the risk management plan and processes of the company

3. Audit Committee

Mr Roka is aware that an Audit Committee should be appointed, but he does not understand the King Report requirements. He has therefore asked you to help him with establishing the audit committee.



REQUIRED

- 1.1 Comment on the Board of Directors in relation to the requirements of sound corporate governance in terms of the King 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 (2 comments)
 - d) General remarks (4 comments) (16.5)
- Please note:
- Both compliance and non-compliance should be addressed in your answer
 - Communication, logic, structure and layout (1)
- 1.2 Provide Mr Roka with the necessary information to establish an Audit Committee which complies with the King Report requirements.
Please note:
Present your answer addressing the following queries of Mr Roka
- a) Who is allowed to be the chairperson of the audit committee" (1.5 marks)
 - b) What is the minimum number of members that should form the audit committee"? (1.5 marks)
 - c) What is the minimum number of meetings that the audit committee should have each year? (1.5 marks)
 - d) Name two functions this committee should perform (3 marks) (7.5)

QUESTION 2

25 Marks

Dig Deep Ltd (hereafter referred to as Dig Deep), is a mining company and has a workforce of about 5 500 workers, many of whom are migrant workers from neighbouring countries of South Africa. The company has a formal risk assessment process which includes a risk committee that meets twice a year. The committee identifies and assesses risks faced by the company. The Risk Committee then considers whether the risks are being appropriately responded to. The risks relating to human resources are always an item for discussion on the agenda.

Wages system:

Complete wage records are kept by the company at the administration building. Each worker receives a weekly cash wage that is paid out by the pay clerk at a central pay point. Weaknesses exist in the internal controls over unclaimed wages, resulting in financial losses suffered by Dig Deep. Employee details are updated from time-to-time on the employee Masterfile.

REQUIRED

- 2.1 Briefly describe four risks which a company such as Dig Deep Ltd might face relating to its workforce. (6)
- 2.2 Describe the internal controls that should be implemented to ensure good control over unclaimed wages at Dig Deep Ltd. (9)
- 2.3 Describe the controls that should be implemented when updating the employee's masterfile in a computerised environment. Limit your answer to updating existing employee data. (10)



QUESTION 3

50 Marks

Silver Linings (Pty) Ltd (hereafter referred to as Silver Linings) is a company that provides security services, such as the secure transport of cash.

Accounting system

The company's accounting systems are located on a local area network (LAN) and, due to the nature of the company's business, contain a fair amount of sensitive information.

Internal controls in the recording of cash receipts from debtors section

During the current year, Mr B Cooper stole some cash received from debtors. As a result the total of the day's recorded cash did not agree with the actual cash on hand. The management of Silver Linings requested that you advise them on the internal controls that can be implemented in the manual "recording of cash receipts from debtors" to mitigate or eliminate the risk that cash deposits from debtors may never be recorded or may not be recorded timeously.

Acquisitions and Payments

Ms J Lawrence is a new employee in Silver Linings. Ms Lawrence requires help with the various functions and documents in the acquisitions and payment cycle. The following functions and source documents have been identified:

Functions:

Ordering of goods
Recording of purchases

Preparing the cheque and recording
Receiving of goods
Payment preparation

Source documents:

Credit note
Creditors' statements
Purchase Invoice
Returned paid cheque
Bank statement
Purchase order form

Supplier Delivery Note
Cheque
Goods received note
Requisition
Cheque requisition
Remittance advice

REQUIRED

- 3.1 Briefly describe the controls over passwords that should be in operation to ensure good control over the LAN at Silver Linings (Pty) Ltd. (14)
- 3.2 In addition to the password controls in 3.1 above, describe four supplementary (additional) access controls that should be in place at Silver Linings (Pty) Ltd for the protection of the accounting system. (6)
- 3.3 Describe the internal controls that management should implement in the manual accounting system of "recording of cash receipts from debtors" to mitigate or eliminate the risk that payments received from debtors may never be recorded. (12)
- 3.4 Match the documents to the different functions in the acquisitions and payments cycle, in assistance of Ms J Lawrence. (18)



AUE2602 2014 S2 – QUESTION (UNISA)

QUESTION 1

25 marks

Sweets-R-Us Limited (hereafter referred to as Sweets-R-Us) is a producer of candies and chocolates that are sold in various retail stores across South Africa. Sweets-R-Us was founded by Mr Willy Wonka 30 years ago. The company was listed on the JSE (previously the Johannesburg Stock Exchange) 12 years ago. Thereafter, Mr Wonka retained only 2% of the shares in Sweets-R-Us. Recently, while inspecting the annual report of Sweets-R-Us, you noticed that the board of directors and the board committees are composed as detailed below.

The Board of Directors consists of:

Mr Willy Wonka	-	Executive Chairperson *1
Mr Charlie Bucket	-	Chief Executive Officer (CEO)
Ms Veruca Salt	-	Financial Director (an executive director)
Mr August Gloop	-	Operations Director (an executive director)
Ms Violet Bafedi	-	Human Resources Director (an executive director)
Ms Sen Slug (CA(SA))	-	Independent Non-Executive Director (CA(SA)) *2
Mr Oompa Loompa	-	Non-Executive Director *3
Mr Mike Tebogo	-	Marketing Director (an executive director) *4

* Note 1

Mr Willy Wonka retired a year ago as the CEO, after 30 years of service. He immediately assumed the newly created role of Executive Chairperson.

* Note 2

Ms Sen Slug was the Financial Director of Sweets-R-Us for a number of years. She retired two years ago. She rejoined the board at Mr Wonka's request when he became the chairperson. Mr Wonka has always taken responsibility of appointing directors to the board.

* Note 3

Mr Oompa Loompa is the CEO of World of Wonders Incorporated, a large company that provides safari services. Neither Mr Loompa nor World of Wonders Inc has any financial interest in or business relationship with Sweets-R-Us.

* Note 4

The position of the company secretary has been vacant for six months. Ms Violet Bafedi will make an appointment during the course of the upcoming financial year. Mr Mike Tebogo is being considered for this position.

Board committees

The company has two board committees, namely an audit committee and a remuneration committee. Each of these committees consists of three members. Mr Willy Wonka chairs both the audit committee and the remuneration committee. Mr August Gloop and Mr Mike Tebogo serve on both of these committees. The committees meet once a year, usually shortly after completion of the external audit. The audit committee's only function is to discuss the findings of the annual statutory audit. The remuneration committee is responsible for approving the remuneration policies of company personnel for the next financial year.



REQUIRED

1.1 Comment on the board of directors and the board committees in relation to the requirements of sound corporate governance in terms of the King Report. (24)

Present your answer under the following sub-headings: (1)

- a) Mr Willy Wonka – Executive Chairperson (two comments)
- b) Ms Sen Slug – Non-executive Director (one comment)
- c) Mr Oompa Loompa – Non-executive Director (one comment)
- d) The company secretary (three comments)
- e) The audit committee (five comments)
- f) The remuneration committee (three comments)
- g) Any other general issues regarding the board of directors and the board committees (one comment)

- Both compliance and non-compliance should be addressed in your answer.
- Communication, logic, structure and presentation

QUESTION 2

40 Marks

Lipstick Mania (Pty) Ltd (hereafter referred to as Lipstick Mania) is a cosmetics manufacturing company that provides a variety of products for sale at various retail stores across South Africa. Lipstick Mania takes great pride in the fact that none of its products is tested on animals. Mr Luto, the production manager, has received instructions to start preparing for the annual inventory count. As this is Mr Luto's first year at the company, he requested your help with the preparation of the stock count in order to ensure a successful inventory count.

Upon joining Lipstick Mania, Mr Luto was informed about the occurrence of theft of the manufacturing equipment in the past. New equipment was recently bought to replace the equipment that was stolen. Mr Luto wants to propose internal controls to management, which can be implemented in the store to reduce the risk of theft.

REQUIRED

2.1 Describe to Mr Luto the preparation process for the inventory count. (24)
Present your answer under the following headings: (1)

- a) Planning and preparation (10½ marks)
- b) Design of stationery (6 marks)
- c) Written instructions (7½ marks)

2.2 Advise Mr Luto on the internal controls that can be implemented in a manual system for the safeguarding of equipment acquired in the manufacturing plant, to ensure that the theft incidents that occurred in the past will not be repeated. (15)



QUESTION 3**35 Marks**

Carmen's Cravat (Pty) Ltd (hereafter referred to as CC) is a retail shop that specialises in the sale of handmade formal men's clothing. CC purchases the clothes and then sells it to the public. CC's inventory includes items such as suits, cravats, ties, bowties, handkerchiefs and cufflinks. Ms Carmen Tibideaux is the chief executive officer (CEO) of CC. Her assistant, Ms Rachel Berry, implemented sound internal controls in the receiving of goods department. Ms Tibideaux does not understand the necessity of these sound internal controls. Although Ms Berry feels that the internal controls are adequate, she has nevertheless informed Ms Tibideaux that the internal controls do not provide absolute assurance that the company will be able to respond adequately to risks. Ms Berry is particularly concerned about sales and listed the following weaknesses:

- a) Management may decide that sophisticated bar-code scanning equipment may not be worth the cost, despite the fact that sales will be rung up more accurately.
- b) The retail shop supplies men's clothing on credit to a very limited number of customers. There are few internal controls over sales and receipts from debtors, since these transactions do not take place often and as such, the debtor's accounts may be neglected.
- c) A teller may transpose an amount rung up (for example, R9.60 rung up as R6.90) and the customer may not notice the error.
- d) The cashier and the till supervisor (who together agree the day's takings) may decide to manipulate the reconciliation of cash/till slips and divide the money stolen between them.
- e) The manager of the retail shop may allow a friend to remove goods through the till area without paying for them. The cashier will be powerless to prevent this from happening, as the manager is in an authoritative position.
- f) The existing system may be unable to "control" a newly introduced staff discount arrangement whereby shop staff can purchase up to a certain amount of goods at a discount. As a result, staff may be abusing the system by purchasing goods in excess of their limit.

REQUIRED

3.1 List any five (5) risks associated with the receiving of goods department in a manual acquisitions and payments cycle. (7%)

3.2 Provide Ms Tibideaux with any eight (8) internal controls that should be in place in the receiving of goods department in a manual acquisitions and payments cycle. (12)

3.3 List the internal control limitations and give a brief explanation of each of the limitations listed in a) to f) in the scenario. (15)

Please refer to the example below and present your answer using the table given. (1)

Example	Internal control limitation	Explanation
a) Management may decide that sophisticated bar-code scanning equipment may not be worth the cost, despite the fact that sales will be rung up more accurately.	Internal controls might not be cost effective.	Certain errors or irregularities may go undetected because management has decided that the appropriate control is too costly to implement.



AUE2602 2015 S1 – QUESTION (UNISA)

QUESTION 1

24 marks

Goals Galore (Pty) Ltd (hereafter referred to as "Goals Galore") is a manufacturer of football equipment and clothing which are sold in various retail stores across South Africa. Goals Galore was incorporated in 2005 and started out as a small owner managed business but has since grown into a large player in the sport equipment industry.

Due to the rapid expansion and excellent performance of the company, the board of directors is considering listing the equity of the company on the Johannesburg Securities Exchange (JSE). The directors are aware that the company will need to comply with sound corporate governance as recommended in the King Report.

The board of directors consists of

Mr Sebastian Schwein	-	Chief executive officer (CEO)
Mr Leon Messi	-	Non-executive chairperson *1
Mr Efese Ambrose	-	Non-executive director *2
Mr Arno Robben CA(SA)	-	Financial director (an executive director)
Ms Xabina Alonso	-	Risk director (an executive director)
Mr Christiaan Ronaldo	-	Human resources director (an executive director)
Ms Louise Suarez	-	Independent non-executive director
Ms Jamie Rodriguez	-	Non-executive director *3

*** Note 1**

Mr Leon Messi currently holds 12% of the shareholding in Goals Galore

*** Note 2**

Mr Efese Ambrose is free from any business or other relationship which could be seen to interfere materially with his capacity to act independently. Mr Ambrose is a qualified lawyer.

*** Note 3**

Ms Jamie Rodriguez used to be a professional advisor to Goals Galore due to her experience in the design of footballs. She still receives remuneration in the form of a royalty fee contingent on the sales of the Dijarah brand football by Goals Galore.

The board of directors meets every four months to accommodate Ms Louise Suarez who travels abroad regularly due to her advisory commitments and is not available for more regular meetings.

Mr Christiaan Ronaldo currently performs secretarial duties where applicable and no company secretary is appointed.

Ms Stacy Gerrard is Mr Arno Robben's right hand. She is the financial manager of Goals Galore and has been with the company since 2008. She knows the business very well and is currently assisting Ms Xabina Alonso with a review of Goals Galore's internal controls.



Board committees

The board of directors wants to establish an audit committee and a risk committee. Mr Sebastian Schwein suggested the following candidates for the respective committees and does not see the need for any other board committees at this stage.

Audit committee

Mr Leon Messi (chairperson)
Ms Jamie Rodriguez
Mr Efese Ambrose
Mr Arno Robben CA(SA)
Ms Stacy Gerrard

Risk committee

Ms Louise Suarez (chairperson)
Ms Xabina Alonso

REQUIRED

- 1.1 Comment on the information provided in relation to the requirements of sound corporate governance in terms of the King Report. (18)

Present your answer under the following headings: (1)

- a) Board of directors: composition and appointments (three comments)
- b) Audit committee: composition and appointments (three comments)
- c) Risk committee: composition and appointments (two comments)
- d) General remarks (four comments)

- Both compliance and non-compliance should be discussed in your answer

- 1.2 Explain the main function of a remuneration committee per the King Report AND indicate which of the directors on the board of directors would be the most suitable candidate to be appointed as the chairperson of the remuneration committee to comply with the requirements of the King Report. (3)

- 1.3 The King Report states that one of the functions of the audit committee is to ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities. Explain the main objective of the term "combined assurance model" (2)



QUESTION 1**26 marks**

Bulls (Pty) Ltd manufactures and sells children's toys to the general public.

Revenue and receipts

The sales terms are cash on delivery only. The company has implemented good internal controls over the years and its revenue and receipts cycle is divided into clearly defined functions, namely receiving of customer orders, warehousing/despatch, invoicing, recording of sales and receipt of cash. The following is a selection of control procedures which take place at Bulls (Pty) Ltd during the day-to-day running of the company:

1. Lindy Gouws, the sales order manager checks the details on all internal sales orders prepared by the three order clerks.
2. Mandia Khumalo, one of the warehouse clerks, makes out a back order note for an item which is ordered, but is "out of stock".
3. Internal sales orders sent to the accounting department are filed in numerical sequence
4. Kobus van der Merwe, one of the despatch controllers, compares the toys to be delivered to the picking slip and delivery note as the toys are packed into boxes for delivery.
5. Nelson Horn, the accountant, compares the prices on the invoice to the official price list and re-performs the value-added-tax (VAT) calculation,

Inventory valuation

The inventory is a material account balance in the financial statements of Bulls (Pty) Ltd. Management therefore wants to ensure that this balance is correctly reflected in the accounting records, and has asked you for advice.

REQUIRED

- 2.1 Indicate the function of the revenue and receipts cycle under which each of the control procedures (1-5) is most likely to occur at Bulls (Pty) Ltd (7.5)
- 2.2 Explain what the inventory valuation term "net realisable value" means (3)
- 2.3 Indicate at what inventory valuation value inventory should be presented in the financial statements of a company (1.5)
- 2.4 Name any TWO of the three cost formulas to value inventory as permitted by International Accounting Standard (IAS) 2. Inventory (3)
- 2.5 List what the cost price of inventory should consist of (4.5)
- 2.6 Indicate whether the following costs should be included or excluded when valuing inventory;
 - a) Wages paid to production staff
 - b) Administrative costs
 - c) Production material lost during a fire in the production plant
 - d) Commission paid on goods sold(6)

A half mark will be awarded for the correct presentation of your answer.



QUESTION 3

50 marks

Modern-Shoes Ltd (hereafter referred to as "Modern-Shoes") is a shoe manufacturing company and has been in business since 2001.

Employee masterfile

Modern Shoes has a large workforce of 2 000 employees and the payroll cycle was fully computerised a few years ago. The company was in the news recently when fraud perpetrated by the payroll manager was discovered. He made unauthorised payments to fictitious or ghost employees on a monthly basis.

The risk committee of Modern-Shoes requested management to design 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.

Inventory

The inventory of Modern-Shoes consists mostly of the finished shoes manufactured and is one of the company's most material assets. Comprehensive internal controls are in place to ensure the inventory is safeguarded against theft and misappropriation.

The following controls were implemented in the inventory cycle:

1. Entry to and exit from the warehouse are monitored 24 hours a- day by surveillance cameras
2. The company has a receiving supervisor, a despatch supervisor, and a stores controller who is responsible for the custody of inventory.
3. The financial controller, receiving supervisor, despatch supervisor and stores controller all have the necessary skills and qualifications applicable to their job descriptions.
4. The company has a full inventory count every two months which is attended by the financial controller and external auditors.
5. One of the warehousing section's objectives is to keep theft of inventory below 1% of the total cost of inventory on hand. This is monitored monthly.
6. Pickers sign the picking slip after they have selected the goods from the store.
7. Any warehouse personnel, who are caught stealing inventory, are dismissed immediately.

Payment of suppliers

Modern-Shoes obtains raw materials for the manufacturing of their shoes from various local suppliers. Due to the recent fraud incident, management is anxious to identify any other areas of weakness in the company's internal controls. As a result the financial director, Mike Shoe, asked you to review their manual payment of suppliers function.

The following is a complete description of the controls in place for the payment preparation and actual payment of suppliers:

- a When the monthly suppliers' statements are received, the creditors' controller, Joe Modern, prepares a cheque requisition from the sequenced, pre-numbered hardcopy requisition book.
- b The completed cheque requisition is then sent to the financial director, Mike, for authorisation of the payment to be made.



- c. After the cheque requisition is authorised, Joe prepares the cheque and then hands it over to Mike to sign. In order to limit opportunity for fraud, Mike is the only authorised signatory of cheques.
- d. Mike personally returns the signed cheque to Joe, who then mails the cheque by registered mail to the supplier.
- e. Returned paid cheques are filed alphabetically according to the payee and are reviewed by Joe to ensure no suspicious endorsements, payees or amounts are present.
- f. Joe prepares a reconciliation of the cash payments journal to the bank statements every three months.

REQUIRED

- 3.1 Describe eight (8) internal controls that management should design and implement to comply with the risk committee's request to ensure that only valid new employees are added to the masterfile and only valid changes are made to the employee masterfile. (12)

- 3.2 List four (4) input controls with an example of each, which can be implemented to ensure that the details of the new employees are entered accurately. (6)

Example. Sequence checks will detect gaps or duplications in a sequence of numbers as they are entered, for example, if employee numbers are manually allocated, it would prevent duplicate numbers being assigned

- 3.3 Two of the components of internal control in terms of ISA 315 are control environment and control activities. There are five different categories of control activities. (15)

For each of the inventory controls provided in the question (1-7), indicate whether it relates to the control environment or control activities. Where your answer is control activities, indicate into which category of control activity it falls.

Present your answer in the following format: (1)

Number	Control environment/ control activity	Control activity if applicable
1	Control activity	Access controls

- Number 1 is included above as an example and no marks will be awarded for this.
- One mark will be awarded for the correct presentation of your answer

- 3.4 For each of the internal controls provided in the scenario for the payment preparation and the payment of suppliers (a - f), identify and explain ONE weakness. (15)

Present your answer in the following format: (1)

Number	Weakness	Explanation
a	Before the creditors controller Joe prepares the cheque requisition, he does not reconcile the creditor's statement with the suppliers documentation such as invoices, payments, etc.	This could lead to payments of fictitious creditors or incorrect payments of incorrect amounts.

- (a) is included above as an example and no marks will be awarded for this
- One mark will be awarded for the correct presentation of your answer.



AUE2602 2015 S2- QUESTION (UNISA)

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 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

Director	Position	Additional information
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

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

REQUIRED

- 1.1 Comment on the information provided about the requirements of sound corporate governance in terms of the King 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 (15)
 - One mark will be awarded for the correct presentation of your answer (1)
- 1.2 Indicate in terms of the recommendations of the King 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 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) (0.5 marks)	Brief reason (1 mark)
-----------------	---	-----------------------



- | | | |
|-----|---|--------|
| 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 | (10.5) |
| | Communication, logic, structure and presentation | (0.5) |
| 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 | (0.5) |

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:

1. Ordering incorrect or unnecessary goods, resulting in liquidity problems
2. Ordering unauthorised goods resulting in losses to the company through fraud
3. Requisitions not acted upon or orders not placed timeously or not at all
4. Obtaining inferior quality goods
5. Paying unnecessarily high prices for goods
6. Orders placed with suppliers not filled/not filled timeously
7. 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.

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

- 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. (10.5)

Communication, logic, structure and presentation (0.5)

- 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 (0.5)

- 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 (0.5)

- 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 number	Weaknesses (1.5 marks per weakness)
-----------------	-------------------------------------

Communication, logic, structure and presentation (1)



AUE2602 2016 S1 – QUESTION (UNISA)

The firm ACG Auditors ("ACG"), where you are a trainee accountant, was recently appointed as the auditor of Freshline Ltd ("Freshline"), a company listed on the JSE. Freshline sells fresh products to supermarkets in South Africa and internationally.

QUESTION 1

Minutes of first client meeting

Present:	CEO	Terry Berry ("TB")
	Audit partner	Tito Mboweny ("TM")
	Second year trainee	Warren Buffet ("WB")

Corporate Control

TB: My knowledge of the Companies Act and King Report is not up to date. Freshline wants to appoint members to its audit committee but I am not sure who qualifies to serve on the audit committee. I can choose from the following individuals:

1. Pinki Granny – the financial director of Freshline
2. Yvonne Grape – a non-executive director and retired engineer
3. Peter Orange – Freshline's company secretary
4. Mandla Beets – A registered auditor, the wife of one of Freshline's largest suppliers. Mandla Beets' firm does not provide any services to Freshline.

I am also unsure whether the board or the Audit Committee are responsible for the following:

- a) Control of risk
- b) Overview of internal control
- c) Recommendation of the appointment of the external auditors and overview of the external audit process
- d) Assurance over the integrity of the company's integrated report.

TM: According to Section 94 of the Companies Act, certain individuals are not permitted to form part of the company's Audit Committee. We will give you feedback on this.

Salaries and personnel cycle

TB: We are expanding and are thus hiring more staff. Management is busy designing appropriate controls to ensure that only valid personnel are added to the Masterfile and that only valid changes can be made to the personnel Masterfile. The salary system is computerised.

We are also changing one of our timekeeping controls to one of the following:
When staff arrive at work or leave work, they will mark their names off on a daily timesheet, writing their arrival and exit times in the relevant spaces. A big clock hangs in the security room. The other controls relevant to the salaries system remain unchanged.



King Report

During a training session the following worksheet regarding King recommendations was handed out to the first year trainee accountants. They were asked to arrange the statements from 1.3.1 to 1.3.6 to match the correct information in (i) to (vi).

1.3.1 Must support / assist the board with determining and applying remuneration policies.	(i) Audit committee
1.3.2 Carry out an objective assessment of the effectiveness of risk management.	(ii) Board
1.3.3 Meets at least 4 times per year	(iii) Nomination committee
1.3.4 The Chairperson must not be the chairperson of the Board	(iv) Internal audit
1.3.5 Meets at least twice per annum	(v) Remuneration committee
1.3.6 Helps the Nomination Committee with the appointment of directors	(vi) Company secretary

REQUIRED

1.1 Using the information from the minutes of the first client meeting about corporate control:

1.1.1 Indicate if one of the individuals in 1 – 4 can be appointed to the audit committee in terms of section 94 of the Companies Act. (4)

1.1.2 Give a reason for each answer. (6)

Present your answer in the following format: (2)

Individual	1.1.1 Yes/No (1X4=4)	1.1.2 Reason (1.5X4=6)
Pinki Granny		
Yvonne Grape		
Peter Orange		
Mandla Beets		

1.2 Using the information from the minutes of the first client meeting about corporate control:

1.2.1 Indicate who is responsible for the functions listed in a – d. (6)

1.3 Arrange the statements from 1.3.1 to 1.3.6 to match the correct information in (i) to (vi). Each concept from (i) to (vi) can only be used once. (9)

1.4 Using the information from the minutes of the first client meeting about salaries and personnel cycle, describe 8 internal controls that management should design and implement to ensure that only valid new employees are added onto the Masterfile and that only valid changes are made to the Masterfile. (11)

1.5 List 4 input controls, as well as an example of each, that can be implemented to ensure that the details of the new personnel are captured accurately. (6)

1.6 Using the information from the minutes of the first client meeting about salaries and personnel cycle and timekeeping, explain 4 weaknesses in Freshline's wages system. Limit your answer to the timekeeping function. (6)



QUESTION 2

Internal Control

Freshline's risk management committee asked management to design appropriate internal controls. They explained that there are 5 components of internal control. The following internal controls relate to 2 of the five components, namely control activities and control environment, which have been implemented by the company.

- a) Management encourage strong policies in relation to human resources (policies).
- b) Any staff that are found guilty of theft are dismissed immediately.
- c) Physical access to the data centre is monitored by CCTV.
- d) Frequent stock takes are performed and any differences between items on the stock sheet and actual physical items are followed up and resolved.
- e) The company has a receiver, issuer and stock controller that are responsible for the safekeeping of stock.

The features that relate to the control environment or types of control activities are listed below:

- i) Human resources policies and procedures
- ii) Access/safekeeping and security controls
- iii) Integrity and ethics
- iv) Segregation of duties
- v) Comparison and reconciliation

Purchases and payments cycle

The following documents are used in the purchases and payments cycle:

- a) Requisition
- b) Purchase order
- c) Purchase invoice
- d) Cheque requisition
- e) Creditors statement
- f) Goods received note

Sales and receipts cycle

The following internal controls have been implemented to mitigate the risks associated with the reporting / recognition of sales:

1. Invoices are recorded in numerical order in the sales journal.
2. The numbers of any cancelled invoices are recorded in the sales journal and marked as cancelled.
3. Before the sales invoices are recorded in the sales journal, the amounts on the invoices are added together to get a control total. This total is then compared to the control total in the sales journal after the individual invoices are recorded ("batch control system").



4. An independent staff member checks the order of the invoices that are recorded in the sales journal and follows up on any missing invoices.

Inventory

Due to the high volumes of inventory in Freshline, the risk committee indicated that the control measures need to be implemented to mitigate the risk associated with safekeeping of stock against theft and losses.

REQUIRED

2.1 With regard to the information on internal control:

2.1.1 Indicate for each of the internal controls in b) to e) if it relates to the control environment or control activity. (6)

2.1.2 Indicate which feature of the control environment or type of control activity named in ii) to v) relates to which internal control. Each feature / type can only be used once. (6)

Present your answer in the following format: (2)

Internal control	2.1.1 Control environment / control activity (1.5 marks X 4 = 6 marks)	2.1.2 Feature / type (1.5 X 4 = 6 marks)
a)	Control environment	(i)

No marks will be awarded for the abovementioned example.

With regard to the information on inventory:

2.2 Describe the difference between a general control and an application control. (2)

2.3 Describe the internal controls that could be implemented to mitigate the risk associated with safekeeping of stock against theft and losses. (12)

2.4 With regard to the information on the purchases and payments cycle, indicate the function of the purchases and payments cycle under which each of the documents listed in a) to f) would most likely be used by Freshline. (9)

2.5 With regard to the information on the sales and receipts cycle, for every internal control that will be implemented in the recording of the sales function, name two possible risks that will be mitigated. (12)

Present your answer in the following format: (1)

Internal control	Risk
1.	1.
	2.



AUE2602 2016 S2 - QUESTION (UNISA)

Question 1

21 marks

Motor Mania (Pty) Ltd (hereafter referred to as Motor Mania) has manufactured motor vehicles since 1950. The company was established by Mr G Volving who retired as the chief executive officer (CEO) two years ago and currently holds the position of non-executive chairman of the board of directors of Motor Mania. His brother in law Mr F Mercede took over the position of CEO of Motor Mania when Mr Volving retired. The rest of the board of directors of Motor Mania is composed as follows:

Mr H Fiato	Independent non-executive director
Ms D Citro	Human resource director (executive director)
Mr K Misthi	Financial director (executive director)
Mr C Hondas	Risk director (executive director)
Ms J Kiaso	Non-executive director *Note 1
Ms L Minnie	Non-executive director *Note 2

Note 1: Ms J Kiaso holds 12% of the shareholding of Motor Mania which she inherited two years ago from her grandfather who was a very well-known businessman.

Note 2: Ms L Minnie is the daughter of Mr G Volving and is a qualified industrial engineer.

Corporate governance

Mr F Mercede announced at the last board meeting that he would like the board to consider listing Motor Mania's equity on the JSE (previously the Johannesburg Securities Exchange) to obtain additional capital for expansion.

Board committees

Motor Mania has established an audit committee and a remuneration committee. Mr Volving heard about a nominations committee as well as a risk committee while attending a corporate governance seminar, but is unsure about the membership requirements and functions of these committees. Mr K Misthi was appointed as the chairman of the audit committee and he and the other member of the audit committee, Ms J Kiaso, meet every six months. Ms L Minnie currently holds the position of chairman of the remuneration committee.

Required

1.1 Comment on the information provided in relation to the requirements of sound corporate governance in terms of the King Report assuming that Motor Mania will list its equity on the JSE. Present your answer under the following headings:

- a) Board of directors' composition and appointments (four comments) 6
 - b) Board committees (three comments) 4.5
- Both compliance and non-compliance should be discussed in your answers to a) and b).
- c) The chairman of the remuneration committee announced that she will resign next month. Indicate in terms of the recommendations of the King Report, giving brief reasons, which of the current board members will be suitable to be appointed as the chairman of the remuneration committee. 3
 - d) Explain to Mr Volving what the function of a nominations committee is according to the King Report. 1.5



- e) Indicate, in terms of the recommendations of the King Report, how many times the risk committee should meet per year. 1.5
- f) Explain, in the context of the King Report requirements for internal audit, what the term "risk based audit approach" means. 3
- Communication, logic and structure 1.5

Question 2

29 marks

Greenleaf (Pty) Ltd (hereafter referred to as Greenleaf) is a wholesaler that supplies many species of trees and flowers to nurseries across the country. Mr G Flower, the owner of Greenleaf, has implemented good internal controls in the revenue and receipts cycle as he sees this part of the business as the most important. He implemented the following internal controls:

- All sales orders are recorded on sequentially numbered internal sales orders (ISOs)
- No sales order is accepted if the customer is not on the approved customer list
- The warehouse clerk checks the goods picked to the picking slip and prepares a delivery note in duplicate from the picking slip
- On delivery of the goods to the customer, the customer signs both copies of the delivery note after he has checked the goods. He retains one copy and returns the other copy to the driver
- As signed delivery notes are received, they are matched to their internal sales order and filed sequentially by delivery note number
- The invoice clerk compares details of the delivery note to the internal sales order, prepares a numerically sequenced invoice and cross-references it to the delivery note
- Invoices are entered in the sales journal in numerical sequence

Required

- List and describe four (4) limitations of internal control that could threaten Greenleaf's objectives from being achieved. 10
- Based on the internal controls implemented in the revenue and receipts cycle
 - Identify the function in the revenue and receipts cycle in which the internal controls listed in (b) to (g) are most likely to occur
 - List a potential risk that will arise should Greenleaf not implement these internal controls, listed in (b) to (g)

Present your answer in the following format:

Communication, logic, structure and presentation

1

Internal control	Function 1.5 marks each	Risk 1.5 marks each
a	Receiving customer orders	Orders may not be acted upon timeously or at all, resulting in a loss of sales and customer goodwill.



Question 3**50 marks**

Worldwide Toys (Pty) Ltd (hereafter referred to as Worldwide Toys) is a small toy manufacturer that opened a year ago. It specialises in educational toys for children between the ages of one and seven. Mr Fun, the owner of the business wants to expand the business and appoint additional employees to the manufacturing division. He is considering installing a manual clock system to facilitate accurate and complete timekeeping. Mr Fun read that there are many advantages to computerisation of the payroll system but for now, he is satisfied to install a manual clocking system.

Inventory

Worldwide Toys' inventory is kept in a single tidy warehouse in Sandton, Johannesburg. An inventory count is conducted on an annual basis and the following procedures are followed:

1. The count takes place over two days for Worldwide Toys to receive and despatch goods during the second day of the count.
2. Eight warehouse employees are part of the count team and they each count a section of the warehouse on their own.
3. The warehouse administrator hands out the numerically sequenced inventory sheets with the description and quantity per item to the counters who count their section of the warehouse and tick off the quantities on the inventory sheets once they have counted the items.
4. If the counter counts a different quantity for an item than what is listed on the inventory sheet, he/she will highlight that item on the inventory sheet.
5. The warehouse administrator amends the quantities of all highlighted items on the inventory sheets on the perpetual inventory records to reflect the actual quantities on hand at the conclusion of the count.

Payment of suppliers

Worldwide Toys pays its suppliers via electronic funds transfers (EFTs). Mr Fun is concerned about the internal controls implemented in this function, specifically access to the bank account.

Required

- 3.1 List the internal controls that should be implemented and actions to be performed to ensure that accurate and complete records of valid hours worked (timekeeping) by employees are kept. 12
 - 3.2 Provide Mr Fun with an example of how "biometric data" can be used in a computerised clocking system to identify employees. 1.5
 - 3.3 Describe the advantages of biometric data that could be used in a computerised clocking system over an identification card or a clock card in a manual clock system. 1.5
 - 3.4 Discuss the weaknesses in the year-end inventory count based on the information in the scenario. 15
 - 3.5 Describe the access controls that should be implemented to ensure good control over the bank account from where the EFT payments are made. 7.5
 - 3.6 Provide a list of good password controls as part of access controls over the bank account. 10.5
- Communication, logic and structure 2



AUE2602 2017 S1 - QUESTION (UNISA)

QUESTION 1

50 marks

You are an audit trainee at Vouch Inc, a firm of registered auditors in Johannesburg. You were recently assigned to the audit of ScrewLoose Limited (hereafter referred to as "ScrewLoose"), a VAT-registered company that operates in the hardware sector in South Africa. ScrewLoose specialises in hardware, consumables, chemicals, tools and safety products. Mr C Ment founded the company 14 months ago. As this is the first time that ScrewLoose will be audited, Mr Ment requested that the audit firm provide value-adding comments regarding the corporate governance practices and internal controls at ScrewLoose. The integrated report is yet to be prepared. The following information urgently requires your attention.

1. Corporate governance practices

	Position	Member of Governing Body (Board of Directors)	Member of Audit Committee
Charles Ment	Chief Executive Officer (CEO)	Chairperson	Chairperson
Danny Ndlovu	Operations Director <i>EXECUTIVE</i>	Yes	
Jonas Smith	Managing Director <i>EXECUTIVE</i>	Yes	Yes
Jessica Riley	Independent non-executive director	Yes	
Nadia Ismail	Independent non-executive director	Yes	Yes
Gertrude Moloi	Independent non-executive director	Yes	
Thabiso Mudau	Independent non-executive director	Yes	
Note		1	2

Note 1: The board met twice during the first financial year. *x 4 times*

Note 2: At the only meeting held by the audit committee during the first financial year, a decision was taken that the committee's only duty is to nominate the external auditor for appointment. The audit committee will have a first meeting with the external auditors next month. *2 meetings 1 with auditors no minutes present*

2. Continuity of operations

Mr Ment wants to develop an information technology (IT) disaster recovery plan as part of sound controls to minimise disruption should a disaster occur that could prevent processing and/or destroy financial data.

3. Application controls

Your fellow audit trainee, Jack Newble, was assigned to audit the payroll and personnel cycle at ScrewLoose. He has encountered the following application controls that are used in this cycle, but is not sure whether he has matched the correct descriptions to the respective application controls.

	Description	Application control
A	Identifies amounts that fall outside a predetermined limit after	Alphanumeric test
B	A final balance arrived at after processing is compared to the	Check digits
C	Keying in will not continue until a particular field or fields have	Limit test
D	Is a redundant (extra) character added to an account number,	Mandatory field



*limit test
Run + Run
mandatory
check digit*

E	Detect gaps or duplications in a sequence of numbers as the	Matching check
F	Data that has been processed is compared by the computer	Range test
G	Prevent or detect alphabetic fields that have been entered as	Run-to-run total
H	Data that has been processed is compared by the computer to	Sequence check

Sequence matching
Alpha numeric
Range

4. Source document design

Mr Ment has indicated his concerns to you regarding the design of the source documents at ScrewLoose. His main concern is whether or not the sales invoices that ScrewLoose issues comply with the requirements of the Consumer Protection Act 68 of 2008. You selected sales invoice 698, which is presented below:

Sales Tax Invoice		
Invoice number 698	Customer	Black Velvet Design (Pty) Ltd
ScrewLoose Limited		PO BOX D Pretoria 0037
Description		Amount (R)
XI52 3M Hearing Protection Caps with Green Cups		4 400
Bzl7 35l Compact Flammable Cabinet		12 600
Total		17 000

Required

Marks

- 1.1 Comment on the information that ScrewLoose Limited provided with reference to the requirements of sound corporate governance in terms of the King Report.

Present your answer under the following headings:

(2)

- a) Governing Body (Board of directors) composition and appointments (five comments) (7.5)
- b) Audit committee composition and appointments (three comments) (4.5)
- c) Audit committee meetings (two comments) (3)
- d) General remarks (two comments) (3)
- You should discuss issues in respect of both compliance and non-compliance with the King Report in your answer.

- 1.2 * Describe any FOUR (4) duties of the audit committee in terms of the provisions of the Companies Act. Exclude any duties relating to the external auditor.

- internal audit
- prepare audit report

(6)

- 1.3 * Describe the controls that Mr C Ment should implement at ScrewLoose Limited to minimise information technology (IT) disruption as a result of some disaster. Limit your answer to the disaster recovery plan.

- concerns regarding finance.

(6)

- 1.4 Assist Jack Newbie with his understanding of application controls by matching the correct application control to each description. Only one application control should be provided for each description.

You should present your answer in the following format:

(2)

Description	Application control
-------------	---------------------



A	XXXXXX
---	--------

- 1.5 Indicate with reference to invoice 698 whether or not the design of the source document complies with the minimum requirements for an invoice as stipulated in the Consumer Protection Act 68 of 2008.
- You should discuss issues in respect of both compliance and non-compliance with the Consumer Protection Act in your answer. (9)

QUESTION 2

50 marks

Fantastic Four Furnishers (Pty) Ltd is a manufacturing company that produces beautiful wooden furniture for furniture retail stores.

1. Ordering of wood

To enhance local employment rates, all wood is ordered from the local forestry department by the Senior Buyer, Ms S Storm.

2. The manufacturing process

The factory floor is divided into five sections:

1. Receiving
2. Cutting and moulding
3. Assembly
4. Finishing
5. Storage and delivery

When the wood is received, it is checked and measured to ensure that the size and the moisture content of the wood pieces are within the specified requirements. Each bundle received is documented on a goods received note (GRN) before it is released to the cutting and moulding section for processing. When wood is transferred to a new section, for example, from cutting and moulding to assembly, a transfer note is completed by the foreman of the section releasing the inventory to the next section.

3. Appointment of new staff

The foreman of the finishing section, Mr H Torch, has complained that the assembly section is always behind schedule and that the products are not of the required quality. Mr R Fantastic, the Chief Executive Officer, decided to appoint additional staff to the assembly section. Because he is a very busy man, he placed an advertisement in the local newspaper and immediately appointed the first five applicants. He then proceeded to capture the new employees' details in the computerised employee masterfile.

4. Employee masterfile



The employee masterfile can only be accessed through the use of an authorised username and Password. To enhance accuracy and completeness of the keying in of the masterfile amendments and to detect invalid conditions, screen aids and programme checks were implemented. Any changes made to the masterfile are also automatically logged by the system on sequenced logs. Mr Thing, the Financial Director, regularly reviews the logs and checks the log sequence.

Required

Marks

- 2.1 Describe any FIVE (5) risks linked to the ordering of goods function of the acquisition and payments cycle. Explain why each risk is considered a risk. (15)

Present your answer in the following format: (2)

Risk	Explanation

- 2.2 ✖ Describe FOUR (4) internal controls that should be implemented to mitigate the risks associated with the movement of inventory from the Cutting and Moulding section to the Assembly section. (6)

- 2.3 Regarding the valuation of inventory:

- 2.3.1 Describe at what value the inventory should be presented in the financial statements of Fantastic Four Furnishers (Pty) Ltd. (3)

- 2.3.2 Indicate whether the following costs (a-f) should be included or excluded when valuing inventory:

- | | | | |
|----|---|-----|----|
| a) | Delivery costs | YES | |
| b) | Commission paid on goods sold | NO | |
| c) | Cost of production material lost during a fire in the factory | NO | NO |
| d) | Administrative costs | NO | |
| e) | The salaries of production staff | YES | |
| f) | Variable production overheads | YES | |
- (6)

- 2.4 What procedures should Mr R Fantastic, the CEO, have followed before making the new appointments to address the risk of recruiting unsatisfactory or unnecessary employees? HR, (9)

- 2.5 ✖ Describe any additional internal controls that should be implemented to ensure that new employees' details added to the employee masterfile are accurate, complete and authorised. (9)

MAF !!!



AUE2602 2017 S2 – QUESTION (UNISA)

QUESTION 1

50 marks

^{- KING}
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.

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) ✓ CEO
3	Ms P Kgasago	Finance director and CA (SA) ✓ CFO
4	Mr S Smith	Non-executive director, CA (SA) and former chairman of the board who retired four years ago independent ✓
5	Mr S Sepelane	Non-executive director and newly qualified CA (SA), has no connection to camping ✓✓
6	Ms T Mogale	Company secretary X - should not be 3 not executives

The following points are extracts from the directors meeting:

1. 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 director's committees.
2. Mr C Coleman informed the board of directors of his intention to resign in 2018 and retire to his beach house.
3. 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.

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.**
no isolation of responsibility - lost
- c. On receipt of a customer order, whether telephonically or via email, the sales order clerk **first accesses 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. *no checks done.*
- 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 thereof. The sales order clerk will then email the order to the warehouse administration office. *no checks. / no official p/o*
- 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.** *NO !!*
credit control dept!
- 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.** *NO !!!*

- only authorised personnel to access MAF.
- NO approval
- NO segregation of duties
- NO access restriction to MAF

REQUIRED

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 *Nomination* (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: (2)

	Name	Eligible - Yes/No (1 mark each)	Reason (1½ marks each)
3	Ms P Kgasago		
4	Mr S Smith		
5	Mr S Sepelane		
6	Ms T Mogale		

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. (21)

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. *-no controls.*

Present your answer in the following table format: (2)

Weakness	Explanation

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.

Finance & investment cycle

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

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 description of what is (1½)

2.4.2 Discuss any THREE (3) procedures Ms Prince must follow before authorising the job card. taking place (4½)

Presentation, communication, logical reasoning and structure compare and reconcile it to production schedule. (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)

Input : limit checks Too much overtime!
: mandatory fields
: approved in advance
: overtime hours - limit
: summary of overtime hours.

