

# AUE2602 2013 S1 - SOLUTION (UNISA)

## QUESTION 1

(50 MARKS)

### 1.1 The requirements of sound corporate governance pertaining to the board of directors and board committees

25 marks

#### 1. Board of directors: composition and appointments

1. M Lebate, the chairman of the board, is not an independent non-executive director. (1½)
2. S Gouws, the chief executive officer (CEO), is not the chairman of the board, which is in accordance with king. (1½)
3. The board should comprise a balance of power with a majority of non-executive directors who should be independent. The board has only one independent non-executive director and does not comply with king. (1½)
4. At least a chief executive director and finance director should be appointed to the board. Minetech does not currently have a financial director acting on the board (for the past six months). (1½)
5. Appointments to the board should be a matter for the board as a whole, assisted by the nominations committee, and not the CEO, S Gouws, alone (financial director appointment). (1½)

**Limited to 4 valid answers, 6 marks**

#### 2. Board of directors: meetings

1. Non-executive directors should ensure that they have the time required to attend properly to their duties. L Pretorius, the independent non-executive director, does not meet this requirement. (1½)
2. Minetech's board meets only twice a year, and not 4 times a year as required by king. (1½)

**Limited to 2 valid answers, 3 marks**

#### 3. Audit committee: composition and appointments

1. All members should be independent non-executive directors Minetech does not comply as only L Pretorius is an independent non-executive director. (1½)
2. The audit committee is not independent if two thirds of membership, which includes the chairman (influential), are not independent non-executive directors. (1½)
3. Minetech complies with king with its minimum of three members. (1½)
4. Audit committee members should be suitably skilled and experienced. Minetech does comply with this requirement as L Pretorius is a CA(SA) and A Peters an IT specialist who knows computerised accounting systems well. (1½)

**Limited to 3 valid answers, 4 marks**

#### 4. Audit committee: meetings

1. Minetech complies with king's requirements to meet at least twice a year. (1½)



2. Minetech **complies** with king's requirements to meet with internal audit at least once a year. (1½)
3. Minetech does **not** comply with king's requirements to meet with internal and external audit at least once a year. (1½)
4. Minetech does **not** comply with king's requirements to meet with internal and external audit without management being present (with reference to M Lebate and A Peters who are also part of management). (1½)

**Limited to 3 valid answers, 4 marks**

**5. Risk committee: composition and appointments**

1. The chairman, M Lebate, should not chair the risk committee but may be a member of it. Minetech does **not** comply with this requirement as M Lebate is also the chairman of the risk committee. (1½)
2. The risk committee has only two members and does **not** comply with the requirements of king of three members. (1½)
3. The risk committee has executive and non-executive directors as members, which **complies** with king. (1½)
4. King requires members of the risk committee to have, as a whole, adequate risks management skills and experience. H Ally, the risk director, should have the necessary skills and experience and **complies** with the principle. (1½)

**Limited to 2 valid answers, 3 marks**

**6. General remarks**

1. The board has a company secretary in **accordance** with king. (1½)
2. The board should appoint audit-, risk-, remuneration- and nomination committees. Minetech **does not have** remuneration and nomination committees. (1½)
3. Risk is an ever present factor in any large company, and risks change. It is unrealistic for Minetech Ltd to think otherwise and the theft committed by the financial director is an example of a current financial threat faced by the company. Mineco did **not** comply with principles of good governance of risk. (1½)
4. Overall, the board of directors and board committees do **not** meet the King Report's requirements for good corporate governance. (1½)

**Limited to 2 valid answers, 3 marks**

**7. Presentation**

Presentation of answer under sub-headings provided in paper. (2)

**(1½ for each valid point compliance or non-compliance to the max. of 25 marks, available 36 marks)**

**1.2 General physical access controls**

**(15 marks)**

1. The IT department should be contained in a separate building or wing of a building. (1½)
2. The building should have a dedicated room in which all the equipment which runs the system would be housed, for example the CPU and servers. (1½)
3. Only a limited number of personnel should be allowed access to the data centre. (1½)
4. Visitors from outside the company to the IT building should be controlled (1½) :



- be required to have an official appointment to visit IT personnel working in the IT department. (1½)
  - on arrival be cleared at the entrance to the company's premises, for example by a phone call to the IT department. (1½)
  - be given an ID tag and possibly escorted to the department. (1½)
  - not be able to gain access through the locked door. (1½)
  - wait in reception (or met at the door) for whoever they have come to see. (1½)
  - be escorted by a security guard out of the department at the conclusion of their business. (1½)
5. Entry to the data centre by company personnel other than IT personnel should be controlled. (1½)
6. Physical entry to the data centre (dedicated room) should be controlled (1½):
- only individuals who need access to the data centre should be able to gain entry. (1½)
  - access points should be limited to one. (1½)
  - access should be through a door which is locked. (1½)
  - the locking device should be de-activated only by swipe card, entry of a PIN number or scanning of biometric data. (1½)
  - entry/exit point should be under closed circuit TV. (1½)
7. Remote workstations/terminals should be controlled: (1½)
- should be locked and secured to the desk. (1½)
  - placed where they are visible and not near a window. (1½)
  - offices should be locked at night and at weekends. (1½)
  - Data cables should be protected to prevent tapping as a means of access to the system. (1½)

*(1½ for each valid point to the max. of 15 marks, available 31.5 marks)*

### 1.3 Password controls

10 marks

1. Passwords should be unique to each individual. (1½)
2. Passwords should consist of at least six characters, be random not obvious, and a mix of letters, numbers, upper/lower case and symbols. (1½)
3. Passwords/user-ID's for terminated or transferred personnel should be removed/disabled at the time of termination or transfer. (1½)
4. Passwords should be changed regularly and users should be forced by the system, to change their password. (1½)
5. The first time a new employee accesses the system, he/she should be prompted to change his initial password. (1½)
6. Passwords should not be displayed on PCs at any time, be printed on any reports or logged in transaction logs. (1½)
7. Password files should be subject to strict access controls to protect them from unauthorised read and write access. (1½)
8. Personnel should be prohibited from disclosing their passwords to others and subjected to disciplinary measures should they do so. (1½)
9. Passwords should be changed if confidentiality has been violated, or violation is expected. (1½)





10. Passwords should not be obvious, e.g. birthdays, names and name backwards. (1½)
  11. Two passwords from two separate personnel should be required to gain access to the bank account. (1½)
  12. The passwords should only be valid and accepted by the system during business hours of the company. (1½)
  13. Failed password login attempts should be logged and investigated. (1½)
- (1½ for each valid point to the max. of 10 marks, available 18 marks)

## QUESTION 2

50 MARKS

### 2.1 Internal controls over the ordering of goods in a manual system

15 marks

#### Risk 1

1. Order clerks should not place an order without receiving an authorised requisition. (1½)
2. The order should be cross referenced to the requisition. (1½)
3. Prior to the requisition being made out, stores/production personnel should confirm that the goods are really needed. (1½)

#### Risk 2

1. Before the order is placed, a supervisor/senior buyer should:
  - check the order to the requisition for accuracy and authority; (1½)
  - review the order for suitability of supplier, reasonableness of price and quantity, and nature of goods being ordered. (1½)
2. Segregation of duties should exist between the ordering and authorisation duties. (1½)

#### Risk 3

1. The company should preferably have an approved supplier list to which the buyer should refer when ordering. (1½)

#### Risk 4

1. Before a supplier is approved, senior personnel should carefully evaluate the pricing of products of the company. (1½)
2. The suppliers masterfile could include a price list of goods normally/contracted to be purchased from the supplier. (1½)
3. If goods need to be purchased from a supplier other than the usual approved suppliers, or goods not included in the above price list, a quotation should be obtained for goods to be ordered. (1½)

#### Risk 5

1. Before a supplier is approved, senior personnel should carefully evaluate the reputation of the supplier with regards to reliability. (1½)
2. Even when ordering from an approved supplier, the buyer should contact the supplier to confirm availability and delivery dates. (1½)
3. The ordering department should file requisitions sequentially by department and should frequently review the files for requisitions which have not been cross referenced to an order. (Purchase requisitions cross referenced to purchase Orders) (1½).
4. A copy of the order should be filed sequentially. (1½)
5. The file should be sequenced checked and frequently cross referenced to goods received notes, to confirm that goods ordered have been received. (Copies of orders cross referenced to goods received notes)(1½)



6. Alternatively the pending file of purchase order forms in the receiving bay can be reviewed for orders which are long outstanding. (1½)

#### **Risk 6**

1. Blank order forms should be subject to sound stationery controls. (1½)  
(1½ for each valid internal control to the max. of 15 marks, available 18 marks)

#### **2.2. Application controls over the suppliers (creditors) master file 15 marks**

1. All amendments to be recorded on hardcopy master file amendment forms (MAFs). (1½)
2. MAFs to be pre-printed, sequenced and designed in terms of sound document design principles. (1½)
3. The MAFs should be signed by two senior personnel after they have agreed the details of the amendment to the supporting documentation. (1½)
4. Restrict write access to the creditors' masterfile to a specific member of the section by the use of user ID and passwords. (1½)
5. All masterfile amendments should be automatically logged by the computer on sequenced logs and there should be no write access to the logs. (1½)
6. To enhance the accuracy and completeness of the keying in of masterfile amendments and to detect invalid conditions, screen aids and programme checks can be implemented:

##### **screen aids and related features:**

- Minimum keying in of information. (1½) — *Drop downs*
- Screen formatting, screen looks like MAF, screen dialogue. (1½)
- The account number for a new supplier should be generated by the system. (1½) →

##### **programme checks:**

- Verification/matching checks to validate a creditors' account number against the creditors masterfile. (1½)
  - Alpha numeric checks. (1½)
  - Data approval check (1½) (for example they must enter either 30 days or 60 days in the payment terms field, not say, 120 days)
  - Mandatory/missing data checks (1½) (for example credit limit and terms must be entered)
  - Sequence check on MAFs entered. (1½)
7. The logs should be reviewed regularly by a senior staff member and the sequence of the logs themselves should be checked for any missing logs. (1½)
8. Each logged amendment should be checked to confirm that it is supported by a properly authorised MAF and that the details are correct (1½).
9. The MAFs themselves should be sequence checked against the log to confirm that all MAFs were entered (1½).

(1½ for each valid control to the max. of 15 marks, available 24 marks)

#### **2.3 Procedures to follow over year-end inventory count 20 marks**

1. The count staff should be divided into teams of two, with one member of the team being completely independent of all aspects of inventory. (1½)

- email telling staff at the day of stock counts.



2. All teams should be given a floor plan of the warehouse which should clearly demarcate the inventory locations for which they are to be held accountable. (1½)
3. All inventory should be counted twice. One of the following methods can be adopted:
  - One member of a team counts and the other records, swapping roles thereafter and performing a second count in the same section to which they were assigned. (1½)
  - Count teams complete their first counts, hand their inventory sheets back to the count controller and sign for the inventory sheets of another section, thereby doing their second counts on a section already counted by another count team. (1½)
4. As items are counted they should be neatly marked by the counters. (1½)
5. Where count teams identify damaged inventory these inventory items must be marked as such on the inventory sheets. (1½)
6. The contents of boxes where the packaging appears to have been tampered with, should be counted and the details noted on the inventory sheet. (1½)
7. A few boxes should be selected at random in each section and the contents compared with the description on the label to confirm that the contents have not been changed/removed and the seal replaced. (1½)
8. The count controller (and assistants) should:
  - walk through the warehouse once the count is complete and make sure all items have been marked twice. (1½)
  - examine the inventory sheets to make sure that first and second counts are the same and agree to the quantities recorded on the perpetual inventory system if there is one. (1½)
  - instruct the count teams responsible for sections where discrepancies are identified to recount the inventory items in question. (1½)
9. The count controller should obtain the numbers of the last goods received note, invoice, delivery note and goods returned note used up to the date of the inventory count. (1½)
10. No despatches of inventory should take place on the date of the inventory count. (1½)
11. Any inventory received after the count has begun should be stored separately in the receiving bay, until the count is complete and must not be put into the stores. This inventory must be counted and added to the inventory sheets after the count is complete. (1½)
  - The counters responsible for the count sheets should draw lines through the blank spaces on all inventory sheets, and sign each count sheet and all alterations. (1½)
12. The inventory controller should check that this procedure has been carried out (1½) and should sequence test the inventory sheets to ensure that all sheets are accounted for. (1½)
13. Count teams will only be formally dismissed once the count is complete and all queries have been attended to. (1½)

**(1½ for each valid count procedure to the max. of 20 marks, available 27 marks)**





# AUE2602 2013 S2 - SOLUTION (UNISA)

## QUESTION 1

50 MARKS

### 1.1 The requirements of sound corporate governance pertaining to the board of directors and board committees 14 marks

1. They do **not** comply as M Swart, the chairman of the board, is **not** an independent non-executive director. (1½)
2. M Swart is the **CEO and chairman of the board**, which is **not** in accordance with. (1½)
3. The board should comprise **a balance of power with a** majority of non-executive directors who should be independent. The board itself, excluding board committees, has no independent non-executive directors and **does not** comply with King. (1½)
4. A chief **executive** director and a finance director should at least be appointed to the board. They do **not** comply as Minetech does **not** have a financial director. (1½)
5. **The company** secretary should ideally not be a director of the company. Although the company has no appointed secretary, the chairman (a director) is performing these duties, **which is not in accordance** with King. *(secretary should not be a director)*
6. Appointments to the board should be a matter for the board as a whole, which is in fact the case at Speedsew, and as such is **in terms** of King. (1½)
7. The board should be **assisted** by the nominations committee when appointing new directors. Speedsew does **apply** this principle. (1½)
8. Speedsew's board **meet six times a year**, which is in **accordance** with the "at least 4 times a year" as required by King. (1½)
9. The board should appoint **audit-, risk-, remuneration- and nomination** committees. Speedsew does **not** have a risk and remuneration committee. (1½)
10. Speedsew does not have a company secretary which is **not** in accordance with King. (1½) *(no company secretary)*
11. **Overall**, the board of directors and board committees do **not** meet the King Report's requirements for good corporate governance and any recommendations that are not applied should be explained by them. (1½)

(1½ for each valid point, to the max of 14 marks; available 18 marks)



### 1.2 The functions of internal audit 14 marks

Function nr.	Yes/No	Brief reason <i>deals with compliance &amp; control</i>
1. Assisting the nominations committee: company secretary	Yes (1)	The company secretary is an important appointment in respect of corporate governance. In a sense, the company secretary is similar to internal audit in that both are "control mechanisms". (1½)
2. Monthly production reconciliations	No (1)	Production reconciliations are routine accounting and production (operational) procedures which should be performed by the production manager and accounting section. (1½)
3. Designing a production costing system	No (1)	The design of systems is an operational responsibility from which the internal audit department should be independent. Internal audit may review the proposed system. (1½)
4. Reviewing compliance with health and safety	Yes (1)	Compliance audits (evaluating whether the company is complying with relevant laws and regulations) are part of internal audit's risk management. (1½)
5. Investigating wage pay-out fraud	Yes (1)	One of internal audit's roles is to provide information regarding instances of fraud or alleged fraud to the board so that appropriate action can be taken. (1½)

(1 for each valid "yes/no"; 1.5 for each valid explanation, and 1.5 for presentation to the max of 14 marks (5x1 + 5x1.5 + 1.5))

### 1.3 Internal control over the wage packet preparation and pay-out of wages 18 marks

Reference:

1. Wage packets should be made up by two wage department members. (1½)
2. On delivery of the payroll and pay packets to a section, the section head should agree the number of pay-packets to the payroll (1½)  
sign the payroll & acknowledge receipt (1½)
3. The pay packets and payroll should be locked away until pay-out. (1½)
4. The wage pay-out should be conducted by at least two employees. (1½)
5. Employees should present identification prior to receiving their pay packets (1½)  
acknowledge receipt of their wage packet by signing the payroll (1½)  
count their cash and immediately report any discrepancies to the paymaster. (1½)





6. Employees should not be allowed to accept a pay packet on behalf of another employee. (1½)

7. At the conclusion of the pay-out, the paymaster and foreman who have conducted the pay-out, should agree all unclaimed pay packets to the payroll (1½)  
enter the details of unclaimed wages in an unclaimed wage register (1½)

8. The unclaimed pay packets and payroll should be retained by the paymaster who should lock them away. (1½)

9. When employees wish to collect their unclaimed wages, they must identify themselves and acknowledge receipt of their pay packets by signing the unclaimed wage register. (1½)

10. Regular independent reconciliations of unclaimed pay packets on hand and the unclaimed wage register should be performed. (1½)

11. Any wages remaining unclaimed after two weeks, should be banked. (1½)

(1½ for each valid control to the max of 18 marks; available 22.5 marks)

#### **1.4 Alternative means of payment of wages 1.5 marks**

1. To protect the company from this risk, as well as for the personal safety of employees, a company could pay wages via electronic funds transfer (EFT) (1½) directly into employees' bank accounts or via cheques (1½) made out in the employee's name.

(1½ for each valid alternative to the max. of 1.5 marks; available 3 marks)

#### **1.5 An example and advantage of biometric data in time keeping 2.5 marks**

1. An employee could swipe the identification card of another employee who has not actually come to work thus creating fictitious hours worked. The clocking of fictitious hours can be overcome (1½) by employees having to activate the timing device by presenting biometric data. The most common of these is the thumb or fingerprint (1).



**QUESTION 2****50 MARKS****2.1 Weaknesses in the system of internal control over credit sales transactions 20 marks**

Weakness
1.1 The order is <b>not checked</b> against the approved customer list by the order clerk before accepting the order. (1½)
1.2 The ISO is <b>not compared</b> by an independent employee/supervisor to the order to ensure accuracy. (1½)
1.3 The order clerk <b>does not sign the ISO</b> to confirm performance of the above. (1½)
Limited to two weaknesses
2.1 The credit controller <b>does not perform checks</b> on the order before the ISO is issued. (1½)
2.2 The credit controller <b>does not authorise the ISO</b> before sending it to the warehouse. (1½)
3.1 The warehouse clerk does not initial the picking slip for each item picked. (1½)
3.2 There is no <b>supervisor/warehouse foreman who</b> performs checks to ensure all goods picked are supported by picking slips. (1½)
3.3 The <b>warehouse clerk does not check goods to</b> picking slips before sending it to despatch. (1½)
3.4 The warehouse clerk does not prepare delivery notes before sending it to despatch. (1½)
Limited to two weaknesses
4.1 The despatch clerk does <b>not compare the goods to the picking slip and delivery note</b> . (1½)
4.2 Delivery staff <b>does not supervise the loading of the delivery vehicle</b> . (1½)
4.3 There is <b>no security check at the gate</b> where the goods are compared to the delivery note – the vehicle directly leaves for delivery. (1½)
Limited to two weaknesses
5.1 On delivery, the customer <b>is not given copies of delivery notes to sign and to retain one copy</b> . (1½)
5.2 The invoice is <b>generated before a customer signed delivery note is received</b> . (1½)
6.1 The recording of invoices onto the <b>sales journal</b> are not checked by an independent staff member. (1½)
6.2 No reconciliation is done between <b>a control total of invoices and the sales journal total</b> before debtor statements are generated and posted. (1½)
6.3 No reconciliation is done between <b>the debtor's ledger and the debtor's control account</b> in the general ledger before debtor statements are generated and posted. (1½)
Limited to two weaknesses

**(1½ for each valid weakness and 2 for presentation to the max of 20 marks; (12x1.5 + 2 = 20))**

## **2.2 Controls over the debtor's master file: only authorised amendments are entered 15 marks**

1. Restrict write access to the debtor's master file to a specific member of the section by the use of user ID and passwords. (1½)
2. All master file amendments should be automatically logged by the computer on sequenced logs. (1½)
3. These sequenced logs should be reviewed for accuracy and completeness. (1½)
4. There should be no write access to these logs. (1½)
5. To enhance the accuracy and completeness of the keying in of master file amendments and to detect invalid conditions, screen aids and programme checks can be implemented. (1½)

### **Screen aids and related features**

6. Minimum keying in of information (1½)
7. Screen formatting: screen looks like the master file amendment form (MAF), screen dialogue (1½)
8. The account number for a new debtor is generated by the system. (1½)

accuracy

### **Programme checks**

9. Verification/matching checks to validate a debtor account number against the debtors masterfile (1½)
10. Alpha numeric checks on data entered, such as a debtor's name should only use letters of the alphabet (1½)
11. Range and/or limit/data approval checks on terms and credit limit field (1½)
12. Field size check and mandatory/missing data checks (1½)
13. Sequence check on MAFs entered to ensure that no MAF's were left out (1½)
14. Dependency check, e.g. the credit limit granted may depend upon the credit terms granted, e.g. a 90 days up to a limit of R2 000 (1½)

**(1½ for each valid control to the max of 15 marks; available 21 marks)**





### **2.3 Physical controls over inventory in the warehouse 15 marks**

**Reference:** Jackson & Stent (2012: 12/7)

1. There should be **minimum entry and exit points** to the warehouse. (1½)
2. Entry and exit to the warehouse **should be controlled**, for example swipe cards, keypads, turnstiles, gate control, biometric readers. (1½)
3. **Security guards** should be present at all entry and exit points. (1½)
4. **Entry should be restricted**, for example buying clerks should not be permitted to enter stores unaccompanied. (1½)
5. The buildings should be secure with a minimum number of **windows and a solid structure**. (1½)
6. Environmental: areas should be dry, clean, neatly packed, pest free and temperature controlled where necessary. (1½)
7. **Surveillance cameras/video recordings** should be installed over entry and exit points such as receiving and despatch areas. (1½)
8. **Adequate insurance cover** should exist to recover financial losses due to damage or theft of inventory. (1½)
9. **Fire extinguishers** should be installed in high-risk areas considering the high risk of fire of flammable cleaning materials and chemicals. (1½)
10. **Regular physical inventory counts** should be performed to detect losses in time. (1½)
11. **All material variances or inventory losses detected during** the inventory count should be investigated. (1½)

**(1½ for each valid control to the max of 15 marks; available 16.5 marks)**



# AUE2602 2014 S1- SOLUTION (UNISA)

## 1.1

### a. Board of directors: composition and appointments

1. Ms Soom, the chairman, is not an independent non-executive director. (1½)
2. Mr Roka, the chief executive officer (CEO), is not the chairman of the board, which is in accordance with king. (1½)
3. The board should comprise a balance of power with a majority of non-executive directors who should be independent. The board has only one independent non-executive director and does not comply with king. (1½)
4. At least a CEO and finance director should be appointed to the board. Sew & Sew does currently have both a CEO and financial director acting on the board. (1½)
5. Appointments to the board should be a matter for the board as a whole, assisted by the nominations committee, and not the CEO, Mr Roka, alone (Ms Kop appointment). (1½)

**Limited to 4 valid answers, 6 marks**

### b. Board of directors: meetings

1. Sew & Sew's board meets only once a year, and not 4 times a year as required by king. (1½)

**Limited to 1 valid answers, 1½ marks**

### c. Risk committee composition & appointments

1. The risk committee should comprise a minimum of 3 members which is currently not the case as there are only 2 members and is not in compliance with king. (1½)
2. The risk committee should be chaired by an independent non-executive director which is currently not the case as the CEO Mr Roka is the chairman and is therefore not in compliance with king. (1½)
3. The risk committee should comprise of a mix of executive and non-executive members which is currently not the case as there are only two members, both of which are executive and is therefore not in compliance with king. (1½)

**Limited to 2 valid answers, 3 marks**

### d. General remarks

1. The board has a company secretary in accordance with king but the company secretary is not a director but rather an officer of the company and Mr Zip performing the function of risk director and company secretary is not appropriate in terms of king. (1½)
2. The board should appoint audit, risk, remuneration and nomination committees. Sew & Sew does not have remuneration and nomination committees. (1½)
3. Risk is an ever present factor in any large company, and risks change. It is unrealistic for the risk committee to think that there are no additional risks requiring review. Sew & Sew did not comply with principles of good governance of risk. (1½)
4. The directors should act in the best interest of the company and Mr Needle, who is benefiting at the expense of the company, is not acting in the company's best interests and is therefore not in compliance with King. (1½)
5. Overall, the board of directors and board committees do not meet the King Report's requirements for good corporate governance. (1½)



**Limited to 4 valid answers, 6 marks**

**1.2**

- a. The chairman of the audit committee should be an independent non-executive director.  
The chairman of the board should not be the chairman of the audit committee. max (1½)
- b. The audit committee should comprise of a minimum of three members. max (1½)
- c. The audit committee should meet at least twice a year.  
The audit committee should meet at least once a year with the external auditors and internal audit without management present. max (1½)
- d. The audit committee:
  - Should oversee integrated reporting
  - Should ensure that a combined assurance model is applied
  - Should satisfy itself of the expertise, resources and experience of the company's finance function
  - Should oversee internal audit
  - Should be an integral component of the risk management process
  - Should recommend the appointment of the external auditor and oversee the external audit process
  - Should report to the board and shareholders on how it has discharged its duties

max (3)

**2.1**

- 1. Errors or theft of cash during:
  - drawing of cash
  - making up of wage packets
  - the payout
- 2. Misappropriation of unclaimed wages

max (6)

**2.2**

- At the conclusion of the wage pay out, the persons conducting the pay-out should:
  - agree all unclaimed pay-packets to the payroll
  - identify clearly all employees that have unclaimed wages
  - enter the details for the unclaimed wages into an unclaimed wage register
  - sign the payroll to acknowledge this control procedure
- The unclaimed wages should be locked away by the paymaster
- When employees wish to collect their unclaimed wages, they must identify themselves and acknowledge receipt of their wages by signing the unclaimed wage register
- Independent recons should be regularly performed over the unclaimed wages on hand and the unclaimed wages in the register and any differences or unusual items followed up.
- Any wages unclaimed for two weeks should be banked and a copy of the deposit slip attached to the unclaimed wage register and cross referenced to the relevant entries. max (9)

**2.3**

- 1. All amendments to amend existing employee data should be recorded on hardcopy masterfile amendment forms (MAF). (1½)
- 2. MAFs should be pre-printed, sequenced and designed in terms of sound document design principles. (1½)
- 3. MAFs should be signed by two senior employees after they have agreed the details of the amendment to the supporting documentation e.g. letter from the bank for new bank account details. (1½)
- 4. Restrict write access to the employee masterfile to a specific member of the section by the use of





user ID and passwords. (1½)

5. All masterfile amendments should be automatically logged by the computer on sequenced logs. (1½)

6. These sequenced logs should be reviewed for accuracy and completeness. (1½)

7. There should be no write access to these logs. (1½)

8. To enhance the accuracy and completeness of the keying in of masterfile amendments and to detect invalid conditions, screen aids and programme checks can be implemented. (1½)

9. The logs should be reviewed by senior management, for example the human resources director. (1½)

10. Each logged amendment should be checked to confirm that it is supported by a properly authorized MAF. (1½)

**(1½ for each valid internal control to a maximum of 10 marks, available 15 marks)**

### 3.1

1. Passwords should be unique to each individual. (1½)

2. Passwords should consist of at least six characters, be random not obvious, and a mix of letters, numbers, upper/lower case and symbols. (1½)

3. Passwords/user-ID's for terminated or transferred personnel should be removed/disabled at the time of termination or transfer. (1½)

4. Passwords should be changed regularly and users should be forced by the system, to change their password. (1½)

5. The first time a new employee accesses the system, he/she should be prompted to change his initial password. (1½)

6. Passwords should not be displayed on PCs at any time, be printed on any reports or logged in transaction logs. (1½)

7. Password files should be subject to strict access controls to protect them from unauthorised read and write access. (1½)

8. Personnel should be prohibited from disclosing their passwords to others and subjected to disciplinary measures should they do so. (1½)

9. Passwords should be changed if confidentiality has been violated, or violation is expected. (1½)

10. Passwords should not be obvious, e.g. birthdays, names and name backwards. (1½)

11. Two passwords from two separate personnel should be required to gain access to the bank account. (1½)

12. The passwords should only be valid and accepted by the system during business hours of the company. (1½)

13. Failed password login attempts should be logged and investigated. (1½)

**(1½ for each valid point to the max. of 14 marks, available 18 marks)**

### 3.2

1. The system should lock an individual out after three unsuccessful login attempts (fail safe). (1½)

2. Least privilege – only access to functions necessary to perform functions (read vs write access). (1½)

3. The system should time out after a period of inactivity. (1½)

4. Defence in depth – there should be a combination of passwords in place for very sensitive or confidential areas. (1½)

**(1½ for each valid point to the max. of 6 marks)**

### 3.3



- The cash receipts system should be written up on a daily basis by date and receipt number.
- Supervisory staff should review the cash receipts journal for any missing dates of receipts.
- Sequence tests should be performed over the receipts to confirm that there are no missing receipts.
- Supervisory staff should test postings to the debtors ledger from the cash book.
- The cash book should be reconciled to the bank statement every month by an independent employee.
- The bank reconciliation should be reviewed by a senior employee.
- Debtor queries should be investigated by an independent employee.
- Reconciliations of the debtors ledger to the debtors control account in the general ledger should be regularly performed by a senior employee.
- Employees should sign all documentation as proof that the control procedures have been performed.

**(1½ for each valid point to the max. of 12 marks)**

### 3.4

Function	Source document
Ordering of goods	Requisition Purchase order form
Recording of purchases	Purchase Invoice Credit note Creditors' statements
Preparing the cheque and recording	Returned paid cheque Bank statement Cheque
Receiving of goods	Supplier Delivery Note Goods received note
Payment preparation	Remittance advice Cheque requisition

**(1½ for each valid point to the max. of 18 marks)**



# AUE2602 2014 S2- SOLUTION (UNISA)

## QUESTION 1

25 Marks

**1.1 The requirements of sound corporate governance pertaining to the board of directors and board committees**

**a) Mr Willy Wonka – executive chairman**

1. Mr Willy Wonka, the chairman of the board, is not an independent non-executive director, as required by the King III Report. (1½)

1.1 The previous chief executive officer (CEO) should not become the chairman of the board until three years have lapsed. Mr Willy Wonka only retired a year ago, and therefore cannot be the chairman of the board. (1½)

OR

1.2 The scenario clearly states that Mr Wonka is an executive director and therefore does not comply with the requirements of the King Report. (1½)

2. A lead independent director should be appointed where an executive chairman is appointed, or where the chairman is not independent. This was not done, and therefore the company does not comply with the King Report. (1½)

3. If the board appoints a chairman who is a non-executive director who is not independent or is an executive director, this should be disclosed in the integrated report, together with the reasons and justifications for the appointment. (1½)

(Max 3 marks for this section)

**b) Ms Sen Slugworth – independent non-executive director**

1. Ms Sen Slugworth is not an independent director. A director is not independent if she was employed by the company during the preceding three financial years. (1½)

(Max of 1½ marks for this section)

**c) Mr Oompa Loompa – independent non-executive director**

1. Mr Oompa Loompa is an independent non-executive director and therefore complies with the requirements of the King Report. (1½)

(Max of 1½ marks for this section)

**d) Company secretary**

1. There was no company secretary for six months. King states the board should be assisted by a competent, suitably qualified and experienced company secretary and as such does not comply with the King Report. (1½)

2. Ms Violet Mafedi cannot make the appointment as the board should appoint and remove the company secretary and therefore does not comply. (1½)

3. Mr Mike Tebogo cannot be appointed as the company secretary, as the company secretary should have an arm's length relationship (1½) with the board (does not comply) and

4. Should ideally not be a director (does not comply). (1½)





5. As Mr Mike Tebogo is the marketing director, it is doubtful he is suitably qualified and experienced as a company secretary as required by king. As such the company does not comply with the requirements of the King Report. (1½)

(Max of 4½ marks for this section)

**e) Audit committee**

1. The audit committee should consist of at least three members (Mr Wonka, Mr Gloop and Mr Tebogo). The company complies with the King III Report as it has three audit committee members. (1½)
2. All members of the audit committee must be independent non-executive directors. None of the members are independent non-executive directors, and the company does not comply with the King Report. (1½)
3. The audit committee is chaired by the chairman of the board. This is not in compliance with the King Report. King recommends the chairman of the audit committee should not be the chairman of the board. (1½)
4. The audit committee should be chaired by an independent, non-executive director. Mr Wonka is not an independent, non- executive director. They do not comply. (1½)
5. The audit committee only meets once a year. It does not comply with the King Report, as king states that the audit committee should meet at least twice a year. (1½)
6. King states that the audit committee should meet with the internal and external auditors at least once a year without management present. All the members of the audit committee are part of management, and it would therefore not comply. (1½)
7. The audit committee does not meet with the auditors (both internal and external) at all, as required by the King Report, and therefore does not comply. (1½)
8. The audit committee should be suitably skilled and experienced as required by king. It is doubtful the members comply with this principle as they fulfil the roles of the former CEO, the operations director and the marketing director. (1½)
9. The audit committee's responsibilities are not confined to only discussing the findings of the external audit. It therefore does not comply with the King Report. (1½)

(Max of 7½ marks for this section)

**f) Remuneration committee**

1. King states the chairman of the remuneration committee should be an independent non-executive director. Mr Willy Wonka is not an independent non-executive director. The remuneration committee does not comply with the King Report. (1½)
2. The majority of the members of the remuneration committee should be non-executive directors, of which the majority should be Independent. All the members of the remuneration committee are executive directors, and they do not comply with the King Report. (1½)
3. The remuneration committee should not approve the remuneration policies. They should assist the board in setting and administering these policies. The company does not comply with the King Report. (1½)



4. The King Report does not specify the number of meetings to be held and one meeting can be accepted as sufficient. (1½)

(Max of 4½ marks for this section)

**g) General remarks**

1. The board should comprise a majority of non-executive directors, of which the majority should be independent. The board of directors of Sweets-R-Us does not comply as it only has one independent non-executive director (Mr Oompa Loompa). (1½)

2. Mr Wonka takes responsibility to appoint directors to the board. The King Report requires the nominations committee to assist the board with appointments to the board. They do not comply. (1½)

3. The Board did not appoint a nominations or risk committee as required by the King Report. (1½)

4. The King III Report requires that at least the CEO and the financial director should be appointed to the board. The company does comply with this requirement. (1½)

(Max of 1½ marks for this section)

(1½ marks for each valid principle to the max of 24 marks)  
(1 mark for communication, logic, structure and presentation)

**QUESTION 2**

**40 Marks**

**2.1 Preparation for inventory count**

**a) Planning and preparation**

Planning and preparation must take place timeously (1½) and should cover the following:

1. The date and time (1) of the count (½)

2. The method of counting (1): how the inventory will be counted and recorded e.g. tag system, all items counted twice (½)

3. The staff requirements (1): how count teams are made up e.g. one person from the warehouse, one person independent of the warehouse (e.g. accounting department), how many teams are necessary (½)

4. Supervision (1): who will act as count controller (½)

5. Preparation of the warehouse (1): tidying racks, packing out half-empty boxes onto racks, marking damaged goods, stacking like goods together (½)

6. Drafting of warehouse floor plan (1) to identify count areas for count teams (½)

7. Identifying all locations and categories of inventory (1½)

(Maximum of 10½ marks for this section)

**b) Design of stationery**

Various documents are used and they should be designed along standard stationery design principles (1½):



1. Inventory sheets (1): printed, numerically sequenced, reflect the inventory item number, category and location of the inventory in the warehouse, and have columns for first count, second count, discrepancies, and columns for prices and extensions. (½)
2. Quantities per the perpetual inventory should not be entered on the inventory sheet prior to the count (1½); this forces the counters to actually count to arrive at a quantity; it might not be practical due to time constraints.
3. Inventory tags (1): An inventory tag is a small, numerically sequenced cardboard tag which is attached to the different types of inventory before an inventory count. It will be two distinct, but identical parts, with an empty block into which the quantity of inventory will be entered. (½)
4. Inventory adjustment forms (1½)

(Maximum of 6 marks for this section)

**c) Written instructions**

1. Count information and instructions should be provided (in writing) for all members directly and indirectly involved in the count. (1½)
2. Written instructions should include:
  - 2.1 The identification of count teams (1) and the responsibilities (½) of each member of the team
  - 2.2 The method of counting (1) to be used, e.g. tags, double counts, marking counted inventory in two colours with chalk reflecting the double count (½)
  - 2.3 Identification of slow-moving or damaged inventory as well as consignment inventory (1½)
  - 2.4 Procedures to be adopted if problems arise (1) during count, e.g. particular inventory items cannot be found, deliveries of inventory during the count (½)
  - 2.5 Detailed instructions (1) concerning dates, times, locations (½)

(Maximum of 7½ marks for this section)

(1½ marks for each valid point to the max of 24 marks)

(1 mark for communication, logic, structure and presentation)

**2.2 Internal controls that can be implemented over the safeguarding of equipment acquired for the manufacturing plant**

1. All new equipment should be recorded in the fixed asset register. (1½). Details such as the description, registration number, make and model should be recorded.
2. The initial cost amount and all subsequent accumulated depreciation should be recorded in the fixed asset register. (1½)
3. The fixed asset register should be regularly reconciled to the amount recorded in the general ledger. (1½)
4. The doors of the warehouse where all the equipment is housed should be locked (1) and a key or swipe card (or biometrics) should be required to open the doors. (½)
5. There should be minimum entry and exit points (1) at the warehouse where the equipment is housed. (½)





6. Only authorised employees should be allowed access to the warehouse where equipment is kept. (1½)

7. A security guard at the gate (1) of the warehouse should perform security checks on the identity of any visitors and the purpose of their visit. (½)

8. The user's arrival and departure should be logged (1) in a visitors register and an identification card provided. (½)

9. A security guard should escort (1) the visitors to the warehouse where the equipment is kept. (½)

10. Surveillance cameras or video recorders should be installed (1) at the warehouse and should record all movement. (½)

11. All new assets acquired should be insured to reduce loss. (1½)

12. Management should do reference checks before employees are appointed to ensure honest and ethical individuals are employed. (1½)

13. Equipment should only be allowed to be moved from the warehouse if accompanied by properly authorised documents. (1½)

(1½ marks for each valid point to the max of 15 marks)

### QUESTION 3

35 Marks

#### 3.1 Risks in the receiving of goods department in the acquisition and payments cycle

##### Risks

##### 1. Acceptance of ...

- short deliveries as full deliveries (1½)
- damaged and broken items (1½)
- items not ordered (1½)
- goods not of the required type or quality (1½)

2. Goods received notes (GRNs) not made out accurately or completely (1½)

3. No GRN made out (1½)

4. Theft by employees or outside parties, e.g. collusion with supplier delivery personnel (1½)

(1½ marks for each valid risk to the max of 7½ marks)

#### 3.2 Internal controls in the receiving of goods department in the acquisition and payments cycle

1. The responsibility for receiving goods should be designated to a goods receiving section. (1½)

2. The goods receiving section should be physically secured and access should be controlled. (1½)

3. On arrival of the delivery vehicle, goods should be offloaded in the presence of a goods receiving clerk who should ...

- obtain the supplier delivery note from the delivery personnel and by referring to the order number thereon, locate the purchase order (1½)



- check the quantity and description of goods delivered against the purchase order and the supplier delivery note (1½)
- perform at least a superficial test of the condition of the goods delivered, e.g. broken or wet boxes (1½)
- reject all incorrect deliveries and clearly identify rejections on both copies of the delivery note and purchase order (1½)
- accept goods short delivered but identify such goods clearly on the delivery notes and purchase order (the quantity actually accepted must be clearly identified) (1½)
- include only those goods which have been accepted on the goods received note (GRN) (1½)
- ensure that suppliers' personnel sign both copies of the delivery note, including all amendments e.g. identification of short deliveries (1½)
- sign the supplier delivery note (1½)

4. On transfer of the goods to stores (custody), the stores clerk should compare the physical goods to the goods received note (GRN) and acknowledge receipt by signing the GRN. Any discrepancies should be reported to the stores controller immediately. (1½)

(1½ marks for each valid internal control to the max of 12 marks)

### 3.3 Inherent limitations of internal controls

Example	Inherent limitation (7½ marks)	Explanation (7½ marks)
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 and as such these accounts may be neglected.	The emphasis of internal controls is on routine transactions (as opposed to non-routine transactions). (1½)	Certain unusual transactions may not be subjected to any "normal" controls and thus could give rise to undetected errors or irregularities. (1½)
c) A teller may transpose an amount rung up (e.g. R9.60 rung up as R6.90) and the customer may not notice the error.	The risk of human error. (1½)	Most controls require human involvement and errors or irregularities, therefore could go undetected as "nobody is perfect". (1½)
d) The cashier and the till supervisor (who agree the day's takings together) may decide to manipulate the reconciliation of cash / till slips and split the money stolen between them.	The potential for collusion where the control depends on segregation of duties. (1½)	Where one person has to carry out checks on another's work the control becomes non-existent if the two people conspire to circumvent or "beat" the system. (1½)
e) The manager of the retail shop may allow a friend to remove goods through the till area without paying. The cashier will be powerless to prevent this as the manager is in an authoritative position.	The potential for a member of management to override a control for which he or she is responsible. (1½)	Very often a member of management may abuse the authority he or she has with regard to exercising or implementing an internal control by making a decision or taking action which makes the control ineffective. (1½)



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.	<p>The possibility that internal control procedures become inadequate due to changes in conditions in the business. (1½)</p> <p><b>OR</b></p> <p>The emphasis of internal controls is on routine transactions (as opposed to non-routine transactions). (1½)</p>	<p>The internal controls no longer suit the circumstances in which they were initially established (no longer achieve their objective). (1½)</p> <p><b>OR</b></p> <p>Certain unusual transactions may not be subjected to any "normal" controls and thus could give rise to undetected errors or irregularities. (1½)</p>	
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(1½ marks for each valid internal control to the max of 7½ marks and 1½ marks for each explanation to the max of 7½ marks)

(½ mark for communication, logic, structure and presentation)





# AUE2602 2015 S1- SOLUTION (UNISA)

## 1.1

### a. Board of directors: composition and appointments

1. Mr Leon Messi, the chairman of the board, although non-executive, is not an independent director as he owns shares in Goals Galore. (1½)
2. Mr Sebastian Schwein, the chief executive officer (CEO), is not the chairman of the board, which is in accordance with king. (1½)
3. The board should comprise a balance of power with a majority of non-executive directors who should be independent. The board has only two independent non-executive directors (Ms Louis Suarez & Mr Efese Ambrose) and does not comply with king. (1½)  
Ms Rodriguez is not independent; she gets royalties dependent on Goals Galore sales (1½)  
Mr Leon Messi is also not independent as detailed in point 1 above.
4. At least a chief executive director and finance director should be appointed to the board. Goals Galore does currently have a CEO and financial director acting on the board. (1½)

Limited to 3 valid answers, 4.5 marks

### b. Audit committee: composition and appointments

1. All members should be independent non-executive directors. Goals Galore will not comply as only Mr Efese Ambrose is an independent non-executive director. (1½)  
Ms Gerrard cannot be on the audit committee as she is not a director but the financial manager. (1½)
2. The audit committee is not independent if 80% of membership, which includes the chairman (Influential), are not independent non-executive directors. (1½)
3. Goals Galore complies with king with its minimum of three members. (1½)
4. Audit committee members should be suitably skilled and experienced. Goals Galore does not comply with this requirement as only Mr Arno Robben is a CA(SA) and Mr Efese Ambrose as a qualified lawyer, have the relevant knowledge, there is no indication that the other directors have the required skills. (1½)
5. The chairman of the audit committee should not be the chairman of the board and the chairman should be an independent non-executive director. This is not the case as Mr Leon Messi is the chairman of both the board and audit committee and is not independent. (1½)

Limited to 3 valid answers, 4.5 marks

### c. Risk committee composition & appointments

1. The risk committee should comprise a minimum of three members which is currently not the case as there are only two members and is therefore not in compliance with king. (1½)
2. The risk committee should be chaired by an independent non-executive director which is currently the case as the Ms Louise Suarez is non-executive and independent and this is therefore in compliance with king. (1½)
3. The risk committee should comprise of a mix of executive and non-executive members which is currently the case as there are both executive and non-executive members on the committee and this is therefore in compliance with king. (1½)

Limited to 2 valid answers, 3 marks

### d. General remarks

1. The board has no company secretary which is not in accordance with king. (1½)
2. The board should appoint audit, risk, remuneration and nomination committees. Goals Galore does not have remuneration and nomination committees. (1½)



3. Non-executive directors should ensure that they have the time required to attend properly to their duties. Ms Louise Suarez does not meet this requirement. (1½)
4. Goals Galore's board meets only 3 times a year, and not 4 times a year as required by King.
5. Overall, the board of directors and board committees do not meet the King Report's requirements for good corporate governance. (1½)

Limited to 4 valid answers, 6 marks

### 1.2

The remuneration committee should assist the board in setting & administering remuneration policies. The remuneration committee should be chaired by an independent non-executive director so either Ms Louise Suarez (although it is questionable if she will have the time to fulfil her duties as chair) or Mr Efese Ambrose.

Limited to 2 valid answers, 3 marks

### 1.3

The combined assurance model is the manner in which the company sets itself up to adequately address the significant risks which the company faces, and the audit committee is responsible for ensuring that it adequately addresses these risks.

Combined assurance can be provided by internal assurance providers (internal audit or finance division) or external assurance providers (external audit, industry regulators) and management.

Limited to 2 valid answers, 2 marks

### 2.1

1. Order department
2. Warehouse / despatch (can also be in order department)
3. Invoicing
4. Warehouse / despatch
5. Invoicing

(1½ each maximum of 7.5 marks)

### 2.2

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(3)

### 2.3

Inventories shall be measured at the lower of cost and net realisable value.

(1.5)

### 2.4

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced & segregated for specific projects shall be assigned by using specific identification of their individual costs. The cost of inventories, other than those dealt with above, shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formula.

(3)

### 2.5

The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

### Costs of purchase

The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport,





handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

#### **Costs of conversion**

The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings and equipment, and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour. The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities.

Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include non-production overheads or the costs of designing products for specific customers in the cost of inventories.

Max (4.5)

#### **2.6**

- a) Yes, the wages paid to production staff would be considered as part of the variable production costs of conversion.
  - b) No, administrative costs are specifically excluded unless they are required to bring the inventory to its present location and condition.
  - c) No, abnormal waste is not included in the cost of inventory.
  - d) No, selling costs are specifically excluded from the cost of inventory.
- (1½ each maximum of 6 marks)

#### **3.1**

- 1. All amendments to amend existing employee data should be recorded on hardcopy masterfile amendment forms (MAF). (1½)
- 2. MAFs should be pre-printed, sequenced and designed per sound document design principles. (1½)
- 3. MAFs should be signed by 2 senior employees after they have agreed the details of the amendment to supporting documentation eg letter from the bank for bank account details. (1½)
- 4. Restrict write access to the employee masterfile to a specific member of the section by the use of user ID and passwords. (1½)
- 5. All amendments should be automatically logged by the computer on sequenced logs. (1½)
- 6. These sequenced logs should be reviewed for accuracy and completeness. (1½)
- 7. There should be no write access to these logs. (1½)
- 8. To enhance the accuracy and completeness of the keying in of masterfile amendments and to detect invalid conditions, screen aids and programme checks can be implemented. (1½)
- 9. The logs should be reviewed by senior management, eg the human resources director. (1½)
- 10. Each logged amendment should be checked to confirm that it is supported by a properly authorized MAF. (1½)

(1½ for each valid internal control to a maximum of 12 marks, available 15 marks)

#### **3.2**

Alphanumeric check – to confirm that only numeric digits are included where appropriate for example the employee's ID number.





Dependency check – to confirm information entered is logically accurate for example if the employee is entered as a female, they cannot also select the title as Mr.

Limit check – to confirm that a certain limit is not exceeded for example the age of the employee needs to be of the minimum legal working age in the country

Valid character / sign check – to confirm that no negative amounts or symbols are included where they shouldn't be for example the employee's telephone number or ID number.

Size check – to confirm that only a certain number of characters is included for a specific field for example ID number is 13 digits, telephone number is 10 digits, etc.

(1½ for each to a maximum of 6 marks, available 7.5 marks)

### 3.3

	Control environment / activity	Control activity if applicable
1	Control activity	Access controls
2	Control activity	Segregation of duties
3	Control environment	
4	Control activity	Comparison and reconciliation
5	Control activity	Performance reviews, Comparison and reconciliation
6	Control activity	Isolation of responsibility
7	Control environment	

(1½ for each, presentation 1, maximum of 16 marks)

### 3.4

	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.
b	There is no indication of the cheque requisition being authorised by the preparer, Joe, and there is also no indication of the requisition & supporting documentation being reviewed by Mike.	This could lead to payments of fictitious creditors or incorrect payments of incorrect amounts.
c	There is only one cheque signatory.	This could lead to payments of fictitious creditors or incorrect payments of incorrect amounts.
d	Mike does not agree any details on the cheque nor cancel any supporting documentation (eg invoice) that the cheque is made out for. There is also no review of the details being entered onto the cheque.	The details entered on the cheque could be incorrect. Supporting documentation may be presented more than once for payment.
e	There is no management review nor segregation of duties regarding the cheque payments.	Joe could conceal theft and fictitious payments. He could also make errors in the cheques payments by paying the incorrect amounts or the incorrect persons.
f	The reconciliation is not performed monthly by persons independent of the banking functions.	This could lead to payments of fictitious creditors or incorrect payments of incorrect amounts.

(1½ for each, presentation 1, maximum of 16 marks)



# AUE2602 2015 S2 – SOLUTION (UNISA)

## 1.1

### a. Board of directors: composition and appointments

1. F Plaster, the chairman, is an independent non-executive director which is in compliance with King. (1½)
2. M Bricks, the chief executive officer (CEO), is not the chairman of the board, which is in accordance with King. (1½)
3. The board should comprise a balance of power with a majority of non-executive directors who should be independent. The board has only two independent non-executive directors (F Plaster and G Tiles) and does not comply with King. (1½)
  - S Deeds is not independent as he owns 15% of the shares of CGC. (1½)
  - L Buildt is not independent as he was the financial director in the previous year (generally independence (per the Companies Act) is only present when the individual has not been an employee of the entity for the past 5 years) (1½)
4. At least a CEO and finance director should be appointed to the board. CGC does not currently have a financial director acting on the board and is therefore not in compliance with King. (1½)

Limited to 4 valid answers, 6 marks

### 2. Board of directors: meetings

1. Non-executive directors should ensure that they have the time required to attend properly to their duties. S Deeds, the non-executive director, does not meet this requirement as he lives abroad and does not wish to travel to South Africa more often. (1½)
2. CGC's board meets only three times a year, and not 4 times a year as required by King. (1½)

Limited to 1 valid answer, 1½ marks

### c. Risk committee composition & appointments

1. The risk committee should comprise a minimum of three members which is currently the case as there are five members and is therefore in compliance with King. (1½)
2. The risk committee should be chaired by an independent non-executive director which is currently not the case as L Buildt (discussed above as not being independent) is the chairman and is therefore not in compliance with King. (1½)
3. The risk committee should comprise of a mix of executive and non-executive members which is currently the case and this is therefore in compliance with King. (1½)
4. King requires members of the risk committee to have, as a whole, adequate risk management skills and experience. H Concre, the risk director, should have the necessary skills and experience and complies with the principle. (1½)

Limited to 3 valid answers, 4½ marks

### d. Company secretary

1. King states the board should be assisted by a competent, suitably qualified and experienced company secretary. CGC does not have one and as such does not comply with the King Report. (1½)  
It is questionable whether W Gable will have the required knowledge and skill (being qualified in IT) to be company secretary. This is therefore not in compliance with King. (1½)
2. The secretary should not be a director of the entity. W Gable is the IT director and this is therefore not in compliance with King. (1½)

Limited to 2 valid answers, 3 marks





### 1.2

The audit committee should comprise of only non-executive directors that must be independent. They also need to be suitably qualified to fulfil their role on the committee.

M Bricks is not non-executive as he is the CEO and can therefore also not be independent. It is also unclear whether he has the required knowledge to be on the committee.

G Tiles is an independent non-executive director. Although he has an engineering degree, it is doubtful that this degree will provide relevant knowledge to perform the duties of the audit committee.

Max (3)

### 1.3

	Should the function be performed (0.5 marks)	Brief reason (1 mark)
1	Yes	One of internal audit's roles is to perform objective reviews of the internal controls. (1½)
2	No	Reviewing actual to budget spending are routine management functions and should be performed by the appropriate level of management. (1½)
3	No	Performing review of the fixed asset register are routine accounting and operational procedures which should be performed by the accounting section. (1½)
4	Yes	Compliance audits (evaluating whether the company is complying with relevant laws and regulations) are part of internal audit's risk management. (1½)

Max (6)

### 1.4

- The IT department should be contained in a separate building or wing of a building. (1½)
- The building should have a dedicated room in which all the equipment which runs the system would be housed, for example the CPU and servers. (1½)
- Only a limited number of personnel should be allowed access to the data centre. (1½)
- Visitors from outside the company to the IT building should be controlled (1½):
  - be required to have an official appointment to visit IT personnel working in the IT department. (1½)
  - on arrival be cleared at the entrance to the company's premises, for example by a phone call to the IT department. (1½)
  - be given an ID tag and possibly escorted to the department. (1½)
  - not be able to gain access through the locked door. (1½)
  - wait in reception (or met at the door) for whoever they have come to see. (1½)
  - be escorted by a security guard out of the department at the conclusion of their business. (1½)
- Entry to the data centre by company personnel other than IT personnel should be controlled. (1½)
- Physical entry to the data centre (dedicated room) should be controlled (1½):
  - only individuals who need access to the data centre should be able to gain entry. (1½)
  - access points should be limited to one. (1½)
  - access should be through a door which is locked. (1½)
  - the locking device should be de-activated only by swipe card, entry of a PIN





number or scanning of biometric data. (1½)

- entry/exit point should be under closed circuit TV. (1½)

7. Remote workstations/terminals should be controlled: (1½)

- should be locked and secured to the desk. (1½)
- placed where they are visible and not near a window. (1½)
- offices should be locked at night and at weekends. (1½)
- Data cables should be protected to prevent tapping as a means of access to the system. (1½)

(1½ for each valid point to the max. of 10½ marks, presentation ½)

1.5

1. Passwords should be unique to each individual. (1½)
2. Passwords should consist of at least six characters, be random not obvious, and a mix of letters, numbers, upper/lower case and symbols. (1½)
3. Passwords/user-ID's for terminated or transferred personnel should be removed/disabled at the time of termination or transfer. (1½)
4. Passwords should be changed regularly and users should be forced by the system, to change their password. (1½)
5. The first time a new employee accesses the system, he/she should be prompted to change his initial password. (1½)
6. Passwords should not be displayed on PCs at any time, be printed on any reports or logged in transaction logs. (1½)
7. Password files should be subject to strict access controls to protect them from unauthorised read and write access. (1½)
8. Personnel should be prohibited from disclosing their passwords to others and subjected to disciplinary measures should they do so. (1½)
9. Passwords should be changed if confidentiality has been violated, or violation is expected. (1½)
10. Passwords should not be obvious, e.g. birthdays, names and name backwards. (1½)
11. Two passwords from two separate personnel should be required to gain access to the bank account. (1½)
12. The passwords should only be valid and accepted by the system during business hours of the company. (1½)
13. Failed password login attempts should be logged and investigated. (1½)

(1½ for each valid point to the max. of 12 marks, presentation ½)

2.1

1. Orders should be cross referenced to requisitions that in turn have been authorised by the inventory department confirming that the goods really are required.
2. The ordering department should file requisitions sequentially by department and should frequently review the files for requisitions which have not been cross references to the order.
3. A copy of the order should be filed sequentially and the file should be sequence checked and cross referenced to the goods received note to confirm that goods ordered have been received. The file should also be reviewed regularly for long outstanding orders and these should be followed up on.
4. Bags Galore should have an approved supplier list. Senior personnel should carefully evaluate suppliers that are added to the list in terms of the quality of goods.
5. Bags Galore should have an approved supplier list. Alternatively, quotes should be obtained from various suppliers to obtain the best possible price (considering quality as well).



6. When ordering from a supplier, the buyer should contact the supplier to confirm availability of the goods and the expected delivery dates.

7. Blank order forms should be subject to strict stationary controls.

(1½ for each valid point to the max of 10½ marks, presentation ½)

## 2.2

Internal controls might not be cost effective, or the cost of the control may exceed the benefit thereof.

The emphasis of internal controls is on routine transactions not to non-routine transactions.

The risk of human error.

The potential for collusion where the control depends on segregation of duties.

The potential for a member of management to override a control for which he or she is responsible.

The possibility that internal control procedures become inadequate due to changes in conditions in the business.

(1 for each valid point to the max of 4)

## 2.3

Procedures to follow when conducting a physical year-end inventory count

1. The count staff should be divided into teams of two, with one member of the team being completely independent of all aspects of inventory. (1½)

2. All teams should be given a floor plan of the warehouse which should clearly demarcate the inventory locations for which they are to be held accountable. (1½)

3. All inventory should be counted twice. One of the following methods can be adopted:

- One member of a team counts and the other records, swapping roles thereafter and performing a second count in the same section to which they were assigned. (1½)

- Count teams complete their first counts, hand their inventory sheets back to the count controller and sign for the inventory sheets of another section, thereby doing their second counts on a section already counted by another count team. (1½)

4. As items are counted they should be neatly marked by the counters. (1½)

5. Where count teams identify damaged inventory these inventory items must be marked as such on the inventory sheets. (1½)

6. The contents of boxes where the packaging appears to have been tampered with, should be counted and the details noted on the inventory sheet. (1½)

7. A few boxes should be selected at random in each section and the contents compared with the description on the label to confirm that the contents have not been changed/removed and the seal replaced. (1½)

8. The count controller (and assistants) should ...

- walk through the warehouse once the count is complete and make sure all items have been marked twice (1½)

- examine the inventory sheets to make sure that first and second counts are the same and agree to the quantities recorded on the perpetual inventory system if there is one (1½)

- instruct the count teams responsible for sections where discrepancies are identified to recount the inventory items in question. (1½)

9. The count controller should obtain the numbers of the last goods received note, invoice, delivery note and goods returned note used up to the date of the inventory count. (1½)

10. No despatches of inventory should take place on the date of the inventory count. (1½)





11. Any inventory received after the count has begun should be stored separately in the receiving bay, until the count is complete and must not be put into the stores. This inventory must be counted and added to the inventory sheets after the count is complete. (1½)
13. The counters responsible for the count sheets should draw lines through the blank spaces on all inventory sheets, and sign each count sheet and all alterations. (1½)
14. The inventory controller should check that this procedure has been carried out (1½) and should sequence test the inventory sheets to ensure that all sheets are accounted for. (1½)
15. Count teams will only be formally dismissed once the count is complete and all queries have been attended to. (1½)

(1½ marks for each valid procedure to the maximum of 18 marks, available 27 marks)

Presentation ½

#### 2.4

1. All amendments to amend existing employee data should be recorded on hardcopy masterfile amendment forms (MAF). (1½)
2. MAFs should be pre-printed, sequenced and designed per sound document design principles. (1½)
3. MAFs should be signed by 2 senior employees after they have agreed the details of the amendment to supporting documentation eg letter from the bank for bank account details. (1½)
4. Restrict write access to the employee masterfile to a specific member of the section by the use of user ID and passwords. (1½)
5. All amendments should be automatically logged by the computer on sequenced logs. (1½)
6. These sequenced logs should be reviewed for accuracy and completeness. (1½)
7. There should be no write access to these logs. (1½)
8. To enhance the accuracy and completeness of the keying in of masterfile amendments and to detect invalid conditions, screen aids and programme checks can be implemented. (1½)
9. The logs should be reviewed by senior management, eg the human resources director. (1½)
10. Each logged amendment should be checked to confirm that it is supported by a properly authorized MAF. (1½)

(1½ for each valid internal control to a maximum of 9 marks, available 15 marks)

Presentation ½

#### 2.5

Weaknesses (1.5 marks per weakness, maximum 6, presentation 1)	
1	The order from the customer is not recorded on a sequentially numbered internal sales order. No check is performed to confirm that the customer is a valid customer and that the customer's credit history or limit will not be exceeded. No review is performed over the preparation of the internal sales order to the order received from the customer. The order clerk does not sign as proof of performing the control.
2	The warehouse clerk does not initial the picking slip nor indicate any out of stock items. There are no supervisory checks by the supervisor or manager to ensure all goods picked are supported by valid picking slips. No delivery note is prepared nor matched to the picking slip nor filed sequentially.
3	The despatch clerk does not check the picking slip, delivery note nor the items and quantities of goods being delivered. The customer's delivery details are not checked to confirm delivery to the correct address. There is no supervision of the loading of the truck.
4	The customer is not asked to sign the delivery note as proof of delivery.





# AUE2602 2016 S1 – SOLUTION (UNISA)

## 1.1

Individual	1.1.1 Yes/No (1X4=4)	1.1.2 Reason (1.5X4=6)
Pinki Granny	No	In terms of the Companies Act, every member of the audit committee must be a non-executive director that is independent. Pinki is an executive director being the financial director and therefore cannot serve on the audit committee.
Yvonne Grape	Yes (but...)	Yvonne Grape could be appointed to the audit committee as she is non-executive and independent (there is no indication that her independence is threatened) but it is questionable whether she will have the required knowledge and skills (qualifications) to perform her function effectively being that she is an engineer and may not have the appropriate knowledge about the finance function. Having said that, she may be a member of the committee as long as there are other members on the committee that have the required knowledge and skill.
Peter Orange	No	A company secretary is not a director, they are a prescribed officer and the Companies Act specifically prohibits the company secretary from being on the audit committee.
Mandla Beets	No	Mandla meets the requirement of knowledge and skills and she is non-executive. She is however not independent as she is the wife (a related person in terms of the company's act) of Freshline's major supplier. As such, because she is not independent, she cannot be on the audit committee.

Presentation (2)

Maximum (12)

## 1.2

a) The board is responsible for the governance of risk through formal processes, which include the total system and process of risk management. The audit committee will assist in the risk management process.

b) Audit committee

c) Audit committee

d) Audit committee

Please remember that ultimate responsibility for all governance matters surrounding King is the board.

## 1.3

1.3.1 (v)

1.3.2 (iv)

1.3.3 (ii)

1.3.4 (i)

1.3.5 (iii)

1.3.6 (vi)



#### 1.4

1. All amendments to amend existing employee data should be recorded on hardcopy masterfile amendment forms (MAF). (1½)
2. MAFs should be pre-printed, sequenced and designed in terms of sound document design principles. (1½)
3. MAFs should be signed by 2 senior employees after they have agreed the details of the amendment to supporting documentation eg letter from the bank for bank account details. (1½)
4. Restrict write access to the employee masterfile to a specific member of the section by the use of user ID and passwords. (1½)
5. All amendments should be automatically logged by the computer on sequenced logs. (1½)
6. These sequenced logs should be reviewed for accuracy and completeness. (1½)
7. There should be no write access to these logs. (1½)
8. To enhance the accuracy and completeness of the keying in of masterfile amendments and to detect invalid conditions, screen aids and programme checks can be implemented. (1½)
9. The logs should be reviewed by senior management, eg the human resources director. (1½)
10. Each logged amendment should be checked to confirm that it is supported by a properly authorized MAF. (1½)

(1½ for each valid internal control to a maximum of 8 marks, available 15 marks)

#### 1.5

- Alphanumeric check – to confirm that only numeric digits are included where appropriate for example the employee's ID number.
- Dependency check – to confirm information entered is logically accurate for example if the employee is entered as a female, they cannot also select the title as Mr.
- Limit check – to confirm that a certain limit is not exceeded for example the age of the employee needs to be of the minimum legal working age in the country
- Valid character / sign check – to confirm that no negative amounts or symbols are included where they shouldn't be for example the employee's telephone number or ID number.
- Size check – to confirm that only a certain number of characters is included for a specific field for example ID number is 13 digits, telephone number is 10 digits, etc.

(1½ for each to a maximum of 6 marks, available 7.5 marks)

#### 1.6

- There is no indication that there is only one entry and exit point and there is no supervision of the employees signing in and out which could lead to employees recording fictitious times or making errors when recording (eg reading the time incorrectly).
- There is no indication that clockcards are prepared by the personnel department strictly in terms of the authorised employee list and placed at the entry/exit point.
- There is no indication that an administrative clerk collects the clockcards, agrees the number of cards to the employees in the section, calculates ordinary time and overtime, divides the cards into batches (with relevant batch controls like a batch control register, batch control sheet and control totals), nor signing any of the above to acknowledge responsibility for performing the function.
- There is no indication that the section head checks the calculations, authorises overtime and checks and signs the batch control sheet.

(1½ for each to a maximum of 6 marks)



## 2.1

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)
b)	Control environment	(iii)
c)	Control activity	(ii)
d)	Control activity	(v)
e)	Control activity	(iv)

## 2.2

General controls are those which establish an overall framework of control over computer activities and are controls which should be in place before any processing of transactions get underway, e.g. staff should be properly trained, programmes should be thoroughly tested.

Application controls are controls which are relevant to a specific task within the accounting system (i.e. the accounting application) and are designed to ensure that the input, processing and output of financial information relating to a specific application is valid, accurate and complete.

## 2.3

1. There should be minimum entry and exit points to the warehouse.
2. Entry and exit to the warehouse should be controlled, for example swipe cards, keypads, turnstiles, gate control, biometric readers.
3. Security guards should be present at all entry and exit points.
4. Entry should be restricted, for example buying clerks should not be permitted to enter stores unaccompanied.
5. The buildings should be secure with a minimum number of windows and a solid structure.
6. Environmental: areas should be dry, clean, neatly packed, pest free and temperature controlled where necessary.
7. Surveillance cameras/video recordings should be installed over entry and exit points such as receiving and despatch areas.
8. Adequate insurance cover should exist to recover financial losses due to damage or theft of inventory.
9. Fire extinguishers should be installed in high-risk areas considering the high risk of fire of flammable cleaning materials and chemicals.
10. Regular physical inventory counts should be performed to detect losses in time.
11. All material variances or inventory losses detected during the inventory count should be investigated.

(1½ for each valid control to the max of 12 marks; available 16.5 marks)

## 2.4

- a) Ordering of goods
- b) Ordering of goods
- c) Recording of purchases
- d) Payment preparation
- e) Recording of purchases
- f) Receiving of goods





## 2.5

Internal control	Risk
1. Invoices are recorded in numerical order in the sales journal.	1. The risk that not all deliveries are invoiced is mitigated. 2. The risk that deliveries are invoiced twice is mitigated.
2. The numbers of any cancelled invoices are recorded in the sales journal and marked as cancelled.	1. The risk that deliveries are invoiced twice for the same delivery is mitigated. 2. The risk that not all deliveries that should have been invoiced are invoiced is mitigated.
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").	1. The risk that the invoices are recorded at the incorrect amounts is mitigated. 2. The risk that not all invoices are recorded is mitigated. 3. The risk that duplicate invoices are recorded is mitigated.
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.	1. The risk that not all invoices have been recorded is mitigated. 2. The risk that invoices are recorded twice is mitigated.



# AUE2602 2016 S2- SOLUTION (UNISA)

## 1.1 a Board of directors composition and appointments

- The chairman, Mr Volving, is the previous CEO and shareholder. He is therefore not an independent chairman as required by King.
- There is only 1 independent non-executive director on the board, Mr H Fiato, which is not in compliance with King which states that the majority of the directors should be non-executive and the majority of those should be independent.
  - Ms Kiaso is not independent as she is also a shareholder of Motor Mania
  - Ms Minnie is not independent as she is the daughter of Mr Volving
- As there are only three out of 8 directors (including the chairman) that are non executive and only one of those three being independent, the above criteria in terms of King is not met.
- Motor Mania has a CEO, Chairman and Finance Director as required by King and so they are in compliance with this requirement.

Maximum 6

## b Board committees

- King recommends that an audit, remuneration, nomination and risk committee be formed. Currently Motor Mania only has an audit and remuneration committee so this is not compliant with King.
- The audit committee should comprise of a minimum of three members. Currently there are only two members on the audit committee.
- All members of the audit committee should be non-executive directors and all of them should also be independent. The current members are the finance director Mr Misthi, and the non-executive director Ms Kiaso (not independent as discussed above) and therefore do not comply with this requirement of King.
- The chair of the any committee should be an independent non-executive director. The current chairmanships are held by an executive director (the finance director) and Ms Kiaso who although is non-executive, is not independent. Therefore this requirement has not been met.

Maximum 4.5

c Currently, the only director that would meet the requirements of being the chairman of the remuneration committee is Mr Fiato. He is the only director that is both non-executive and independent.

Maximum 3

d The nominations committee assists the board with the process of identifying suitable members of that can be appointed to the board.

Maximum 1.5

e The risk committee should meet at least twice per year in terms of King.

Maximum 1.5

f The risk-based audit approach places emphasis on internal audit understanding the risks associated with the strategic direction of the company and determining whether internal controls, processes and procedures, adequately address these risks.

Maximum 3

Communication skills 1.5



### Part 2.1

- Internal controls might not be cost effective, or the cost of the control may exceed the benefit thereof.
- The emphasis of internal controls is on routine transactions not to non-routine transactions.
- The risk of human error or misunderstanding in performing the control.
- The potential for collusion where the control depends on segregation of duties or not performing a control when it is meant to be performed.
- The potential for a member of management to override a control for which he or she is responsible.
- The possibility that internal control procedures become inadequate due to changes in conditions in the business and the control not being updated to address the new changes.

Maximum 10

### 2.2

Internal control	2.2.1 Function 1.5 marks each	2.2.2 Risk 1.5 marks each
b	Accepting orders from approved customers	If orders are made by customers that are not approved, the customer may not pay their account and could result in bad debts and losses for Greenleaf.
c	Picking of goods ordered	If the picking slip is incorrect, not matched to the order, or not checked while picking the goods, incorrect items or quantities may be picked, or unauthorised items may be picked.
d	Delivery of goods to the customer	If the customer does not check and sign the delivery notes to the goods received, the customer may not accept that he would need to pay for the goods (resulting in losses for the entity) and the entity would not know when/whether to recognise the revenue as the risks and rewards of ownership of the items may not have been transferred.
e	Record keeping ensuring that all orders have been filled, step to be able to do the invoicing	If the orders are not matched to their respective delivery notes, there would be no way to confirm whether the orders were filled or not, nor would there be a valid basis for invoicing the customer proving that the customer ordered the goods, got delivery of the goods and therefore needs to be invoiced and pay for the goods.
f	Invoicing	If the invoice is not matched to the order and what was actually delivered to the customer, the customer may not pay (if it is in excess of what they ordered/got delivered) or the customer may not speak up if the invoice requires a smaller payment than required which would result in losses to the entity.
g	Recording of sales in the general ledger	If the invoices are not entered in sequence, there would be no way to know if all of the invoices have been appropriately recorded, nor if there were too many items recorded than there should have been.
	Maximum 9	Maximum 9

Presentation 1





### Part 3.1

- There should be a reliable timekeeping mechanism/clocking system, making it difficult to clock invalid hours.
- The clocking in and out should be supervised.
- There should be a single entrance to the building which all employees would be required to use.
- A clock card or similar device, which records the time of exit and entry of each employee independently and in permanent form, should be used to record the entry and exit times of each employee.
  - The clock cards should be appropriately designed (by the human resources department).
  - They should be sequenced (with the sequence being tested)
- Strict access controls should be implemented over the clockcards to ensure that no unauthorised hours are included.
  - When they are brought in and when they are collected for recording of payments.
- All hours worked should be approved by a supervisor or manager.
- All employees recording hours should be checked to confirm that they do exist on the employee masterfile.
- Reconciliations should be performed over the employee clock cards and employee records to ensure that there is no missing or duplicate items.
- Hours should be compared month on month, and to actual production output, to confirm the reasonableness of hours worked.
- Any overtime hours should be approved by the supervisor/manager before being worked.
- Total hours should be recalculated by a senior employee, and then reviewed by another employee to confirm it has been calculated correctly.
  - Both employees should sign as proof of performance of their duties.

Maximum 12

### 3.2

Biometric data can be used, for example fingerprints, eye scanners, etc, to identify an employee.

Maximum 1.5

### 3.3

Using biometrics to identify employees would make it a lot more difficult for the employees to record fictitious hours.

Maximum 1.5

### 3.4

Weaknesses during the physical year-end inventory count

- Despatches of inventory are taking place on the second day of the inventory count which could result in items not being counted, or being counted twice.
- The count staff are not divided into teams of two as each counter counts a section themselves.
- No count team members are independent of all aspects of inventory as all the staff are warehouse employees.
- The counters were not given a floor plan of the warehouse clearly demarcate the inventory locations for which they are to be held accountable.
- A column is not available to input the quantity counted by the counters, they simply tick if they have counted.



- All inventory items were not counted twice for example.
  - One member of a team counts and the other records, swapping roles thereafter and performing a second count in the same section to which they were assigned.
  - Count teams complete their first counts, hand their inventory sheets back to the count controller and sign for the inventory sheets of another section, thereby doing their second counts on a section already counted by another count team.
- There was no tagging or marking system indicating which items were counted.
- There was no marking off of damaged inventory during the count process.
- The contents of boxes where the packaging appears to have been tampered with, should be counted and the details noted on the inventory sheet.
- The warehouse administrator did not
  - walk through the warehouse once the count was complete to make sure all items have been counted; and that any damaged items have been clearly marked as such
  - examine the inventory sheets to make sure that counts are the same and agree to the quantities recorded on the perpetual inventory system if there is one
  - instruct the count teams responsible for sections where discrepancies are identified to recount the inventory items in question.
- The warehouse administrator did not obtain the numbers of the last goods received note, Invoice, delivery note and goods returned note used up to the date of the Inventory count.
- The counters responsible for the count sheets did not draw lines through the blank spaces on all inventory sheets, nor sign each count sheet and all alterations.
- The warehouse administrator did not check that this procedure has been carried out; and did not sequence test the inventory sheets to ensure that all sheets are accounted for.
- The warehouse administrator did not formally dismiss the count teams once the count was complete and all queries had been attended to.
- There is no indication of a senior checking the adjustments made to the system, nor of any access controls and approvals for the adjustments to the inventory masterfile.

Maximum 15

### Part 3.5

Access controls over the bank account where EFT's are made

- The terminal from which the bank account is accessed and from where EFT's are made should be contained in a separate office or room.
- Only a limited number of personnel should be allowed access to the office/room and the terminal.
- Physical entry to the dedicated room should be controlled :
  - only individuals who need access to the room should be able to gain entry (based on the least privilege principle).
  - access points should be limited to one.
  - access should be through a door which is locked.
  - the locking device should be de-activated only by swipe card, entry of a PIN number or scanning of biometric data.
  - entry/exit point should be under closed circuit TV.
  - Access should only be granted during specific times of day
- The terminals should be controlled:
  - should be locked and secured to the desk.
  - placed where they are visible and not near a window.



- offices should be locked at night and at weekends.
- Data cables should be protected to prevent tapping as a means of access to the system.
- Actual entry onto the EFT system should be monitored by logical access controls through the use of usernames and passwords.
- Additional approvals, authorisations and passwords should be made use of to make larger or more non-routine payments.

Maximum 7.5

### Part 3.6

#### Password controls

- Passwords should be unique to each individual.
- Passwords should consist of at least six characters, be random not obvious, and a mix of letters, numbers, upper/lower case and symbols.
- Passwords/user-ID's for terminated or transferred personnel should be removed/disabled at the time of termination or transfer.
- Passwords should be changed regularly and users should be forced by the system, to change their password.
- The first time a new employee accesses the system, he/she should be prompted to change his initial password.
- Passwords should not be displayed on PCs at any time, be printed on any reports or logged in transaction logs.
- Password files should be subject to strict access controls to protect them from unauthorised read and write access.
- Personnel should be prohibited from disclosing their passwords to others and subjected to disciplinary measures should they do so.
- Passwords should be changed if confidentiality has been violated, or violation is expected.
- Passwords should not be obvious, e.g. birthdays, names and name backwards.
- Two passwords from two separate personnel should be required to gain access to the bank account.
- The passwords should only be valid and accepted by the system during business hours of the company.
- Failed password login attempts should be logged and investigated.

Maximum 10.5

Communication skills 2





## AUE2602 2017 S1 - SOLUTION (UNISA)

- 1.1 Compliance and non-compliance with reference to the requirements of sound corporate governance in terms of the King Report.
- a) Governing Body (Board of directors) composition and appointments (five comments)
- In terms of King, the CEO should not be the chairman
    - As Mr C Ment is both the CEO and chairman of the board, **this is not in compliance with King.**
  - In terms of King, the **Chairman** should be an **independent non-executive director.**
    - Mr C Ment is an executive director (acting as the CEO) and is thus not in compliance with King.
  - In terms of King, the majority of the board should comprise of non-executive directors, the majority of whom should be independent.
    - As four of the **7 directors at ScrewLoose** are independent and non-executive, this is **in compliance with King.**
  - King recommends at least a **CEO and financial director to be appointed to the board.**
    - As there is no financial director at ScrewLoose, **this is not in compliance with King.**
  - Appointments to the board should be performed by the board as a whole, assisted by a nominations committee.
    - There is no **indication of a nomination committee** so this is not in compliance with King.
- b) Audit committee composition and appointments (three comments) *3 people*
- In terms of King, the chairperson of the board should **not be the chairperson of the audit committee.**
    - Mr Ment who is the chairperson of the board is also the chairperson of the audit committee, this is not in compliance with King.
  - In terms of King, the chairman of the audit committee must be an **independent non-executive director.**
    - Charles is an executive (acting as CEO) so this is not in compliance with King.
  - In terms of King, every member of the audit committee must be an independent non-executive director.
    - **Only Nadia is an independent non-executive director** whereas Jonas and Charles are both executive, so this is not in compliance with King.
  - The audit committee should comprise of at least three members.
    - The audit committee currently has three members (Charles, Jonas, Nadia) so this is in compliance with King.
- c) Audit committee meetings (two comments)
- In terms of King, the audit committee must meet as many times as required to fulfil their functions (minimum of 2 per previous King report).
    - As the audit committee only met once during the year, this is not in compliance with King.



- In terms of King, the audit committee must meet at least annually with the internal auditors and external auditors without management present.

- As the audit committee contains executive management, this requirement cannot be fulfilled and as such is not in compliance with King.

5 samples.

d) General remarks (two comments)

- King recommends that the board meets as many times as required to fulfil their functions (minimum of 4 per previous King report).
  - As the directors at ScrewLoose only met twice in the year, it is unlikely that they will be able to fulfil their functions appropriately and as such this is not in compliance with King.
- In terms of King, five committees are required namely the audit, nomination, remuneration, risk and social & ethics committee.
  - ScrewLoose appears to only have an audit committee and none of the others, so this is not in compliance with King.
- In terms of King, the Board is required to be assisted by a competent company secretary.
  - There is no indication of a company secretary appointment so this requirement does not appear to be met.

1.2 Duties of the audit committee (excluding duties relating to the external auditor)

- Oversight functions as delegated by the board
- Preparing a report for the AFS including:
  - How the audit committee carried out its functions
  - How it was satisfied that the auditor met the independence requirement
  - Commenting on any relevant matter
- Receive and deal with concerns regarding:
  - Accounting practices and internal audit of a company
  - Content / audit of AFS
  - Internal financial controls
  - Any related matter
- Make submissions to the board regarding any matter detailed above

1.3 Controls over the disaster recovery plan

- The disaster recovery plan should be documented.
- The disaster recovery plan should be widely communicated.
- The disaster recovery plan should be tested on a regular basis.
- The disaster recovery plan should be updated regularly by senior management to changing circumstances.
- The disaster recovery plan should be approved and authorised by senior management and persons with relevant IT experience.
- Employees should be trained on the policies and processes in the disaster recovery plan so that they understand and enforce it.





## 1.4

	Description	Application control
A	Identifies amounts that fall outside a predetermined limit after processing	Limit test
B	A final balance arrived at after processing is compared to the opening balance and the individual total of transactions	Run-to-run total
C	Keying in will not continue until a particular field or fields have been entered	Mandatory field
D	Is a redundant (extra) character added to an account number, part number, etc	Check digits
E	Detect gaps or duplications in a sequence of numbers as the numbers are entered	Sequence check
F	Data that has been processed is compared by the computer against data that is already in the database	Matching check
G	Prevent or detect alphabetic fields that have been entered as numerals and vice versa	Alphanumeric test
H	Data that has been processed is compared by the computer to other information for reasonableness	Range test

## 1.5 Source document design per the Consumer Protection Act:

- **Supplier full name and vat registration number**
  - The name of ScrewLoose appears on the invoice and is in compliance.
  - The Vat registration number is not on the invoice and is therefore not in compliance.
- **Address of premises goods or services were supplied**
  - The address of the premises of ScrewLoose is not included on the invoice and is therefore not in compliance.
- **The date the transaction occurred**
  - The date of the transaction is not included on the invoice and this is therefore not in compliance.
- **Regarding the goods or services supplied, the name, unit price and quantity must be shown.**
  - The name or description of the goods is included on the invoice and is thus in compliance.
  - The unit price is not included on the invoice and is therefore not in compliance.
  - The quantity is not included and is thus not in compliance.
- **The total price of the transaction before any applicable taxes**
  - The total of the transaction is included on the invoice and is thus in compliance.
- **The amount of any applicable taxes**
  - The vat has not been included on the invoice and is thus not in compliance.
- **The total price of the transaction including any applicable taxes**
  - The total including tax has not been included and is thus not in compliance.

## 2.1

Risk	Explanation
Unapproved items being ordered (misuse of order forms)	Personal items being ordered could result in losses for the company due to fraud or even kick-backs.
Unapproved suppliers being used	Suppliers that are not the best in terms of quality, price or service may be used, or even suppliers that the ordering staff have personal relations with being used,





	could result in poor feedback from customers, affecting the reputation and profitability of the entity.
Incorrect type, quantity, price, quality of goods being ordered	Ordering incorrect types, quantities, prices and quality of goods could result in poor feedback from customers, affecting the reputation and profitability of the entity. It could also result in losses if additional purchases are required to make up for the incorrect ones.
Unfilled orders	Orders may not be received on time, or not at all resulting in delays of processing for customers, leading to losses. Orders may be paid for that are never received which could result in losses.
Ordering of incorrect or unnecessary goods (cash flow issues and waste)	If orders are made for goods that are not required, this could result in losses for the entity due to a build-up of unnecessary stock (wastage) or even poor cash flows as a result.
Requisitions not acted upon or orders not placed on time	If the required goods are not received as and when required, this could result in poor feedback from customers, affecting the reputation and profitability of the entity.

## 2.2 Internal controls that should be implemented over the movement of inventory:

- There should be a production schedule / plan including:
  - What is planned to be produced (budgets)
  - The materials, labour, production overheads estimated to be required
  - This is then used to prepare purchase requisitions
  - Authorised by senior personnel
  - Comparison & reconciliation of budget to actuals by senior personnel
  - Variances identified & investigated
  - Any movements supported by approved document & recorded
  - Transfers acknowledged by both sections (isolation of responsibility ie signing)
- There should be job cards / production reports including:
  - Documented stages of production for specific jobs / processes
  - Internally sequenced forms and the sequence should be tested regularly
  - Reviewed & recalculated by second independent employee
  - Both employees to sign as proof of preparation / review (isolation of responsibility)
- There should be physical access controls in the warehouse, including:
  - Minimum entry / exit and controlled
  - Cameras / security
  - Etc
- There should be a material requisition / issue note
  - That is a sequenced document and the sequence should be tested regularly
  - This is a request from the cutting and molding section to release materials to the assembly section
  - This document should be authorised by management



- This document should be supported by the production plan (job / process)
- There should be a transfer to finished goods note which is:
  - A sequenced document recording transfer of goods from cutting and molding to assembly.
  - It should be matched to the production plan, production report & material issue note discussed above

2.3.1 Inventory should be measured at the lower of cost or net realisable value per IAS 2.

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

- a) Delivery costs
  - If delivery from supplier – included
  - If delivery to customer - excluded
- b) Commission paid on goods sold
  - Selling expenses should be excluded
- c) Cost of production material lost during a fire in the factory
  - A fire is an abnormal cost and abnormal waste should be excluded from the cost of inventory
- d) Administrative costs
  - Admin costs should be excluded from the cost of inventory
- e) The salaries of production staff
  - The salaries of production staff (those directly involved in the production process) should be included
  - If their jobs include other areas, their salaries should be pro-rated and only the production costs should be included
- f) Variable production overheads
  - Production overheads directly associated with the production of goods should be included.

2.4 Procedures to be followed before making new appointments to address the risk of recruiting unsatisfactory or unnecessary employees'

- All requests for new employees should originate from the department requesting an employee
  - The specification should be included
  - The request should be approved by management
- The company's policies & procedures should have been followed and relevant laws complied with
- An HR department should be responsible for the appointment of new employees (not the CEO himself)
- The HR department will advertise open positions (per the approved requests above) and
  - Perform background checks on employees
  - Confirm competency requirements (qualifications and experience)



- Perform tests / interviews to determine ethical standing and fit of the employee into the organisation
- Once a suitable candidate is appointed, an employment contract for the employee should be prepared and:
  - Should be signed by the employee & employer
  - Any changes to the contract should be approved by both parties
  - Rights & responsibilities of the employer and employee are documented and clarified
  - The terms, conditions, pay rates, and other details (copies of relevant documents eg Identity book) are also included therein
- Thereafter, appropriate masterfile amendment controls should be implemented to add the employee onto the masterfile (see 2.5 below for the masterfile controls)

- 2.5 Additional internal controls that should be implemented to ensure that new employees' details added to the employee masterfile are accurate, complete and authorised.
- All amendments to amend existing employee data should be recorded on hardcopy masterfile amendment forms (MAF).
  - MAFs should be pre-printed, sequenced and designed in terms of sound document design principles.
  - MAFs should be signed by 2 senior employees after they have agreed the details of the amendment to supporting documentation eg letter from the bank for bank account details.
  - Restrict write access to the employee masterfile to a specific member of the section by the use of user ID and passwords.
  - All amendments should be automatically logged by the computer on sequenced logs.
  - These sequenced logs should be reviewed for accuracy and completeness.
  - There should be no write access to these logs.
  - To enhance the accuracy and completeness of the keying in of masterfile amendments and to detect invalid conditions, screen aids and programme checks can be implemented.
  - The logs should be reviewed by senior management, eg the human resources director.
  - Each logged amendment should be checked to confirm that it is supported by a properly authorized MAF.







# AUE2602 2017 S2 – SOLUTION (UNISA)

1.

The five committees recommended by King:

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

1.2

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

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

1.3

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

Directors must:

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

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

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

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

1.4

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

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

independent  
non-executive

1.5

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



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

## 2.1

The functions of the acquisitions and payments cycle are:

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

## 2.2

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

## 2.3

Risks in the inventory warehousing section:

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

2.4

Description.

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

Before authorising the job card, Ms Prince should:

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

2.5

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

2.6

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

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

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

2.7

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

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