

AUDITING 2A – 2015

FINAL ASSESSMENT OPPORTUNITY

4 JUNE 2016

FIRST EXAMINERS: MS. S MOKOENA
MS. P RAMA
MS. S VENTER

TIME: 120 MINUTES

EXTERNAL MODERATOR : MS. R SMITH

MARKS: 100 MARKS

INSTRUCTIONS:

1. This paper consists of **nine** pages. If your paper does not contain all the pages, please put up your hand so that a replacement paper can be handed to you.
2. Answer all the questions.
3. No tippex or pencil may be used on your answer sheets. Pages on your answer sheets that contain pencil or tippex will be marked as such and will not be eligible for a remark.
4. All the examination regulations of the UJ and the policy document for students of the Department of Accountancy will apply during this assessment.
5. Keep this paper for your own records.
6. The neatness, disclosure and presentation of your answers will be taken into account when marking your paper.
7. Read questions carefully, if you need to provide explanations you should always use full sentences, refrain from simply naming facts.

QUESTION 1

35 MARKS

This question consists of TWO independent parts

PART A

26 MARKS

Shopa Toys is a global toy store chain. They have made an offer to buy out a well-known South African toy store, namely Checky Toys (. The Checky Toys shareholders and management are very excited about this buy-out, as they see it as an opportunity for growth. It will give Checky Toys access to cheaper imported stock, allowing the company to not only grow its profit margins, but also offer more variety at a lower price to the South African market. Shopa Toys is a large global company; therefore they are more resilient to the current recession. If the buy-out does not happen, Checky Toys could be forced to retrench some employees in order to remain operating.

The South African Retail Union (SARU) is opposing this buy-out. They have threatened to stage a nation-wide strike if it proceeds. They state the following as their reasons for opposing:

- South African suppliers will lose their customers and jobs due to being undercut by the cheap imports. Many families will be affected.
- Some of the current workers at Checky Toys may lose their jobs if Shopa Toys brings their own staff.
- Other smaller South African supermarkets may be forced to shut-down due to the much lower prices that Checky Toys can offer as a result of its global strength.

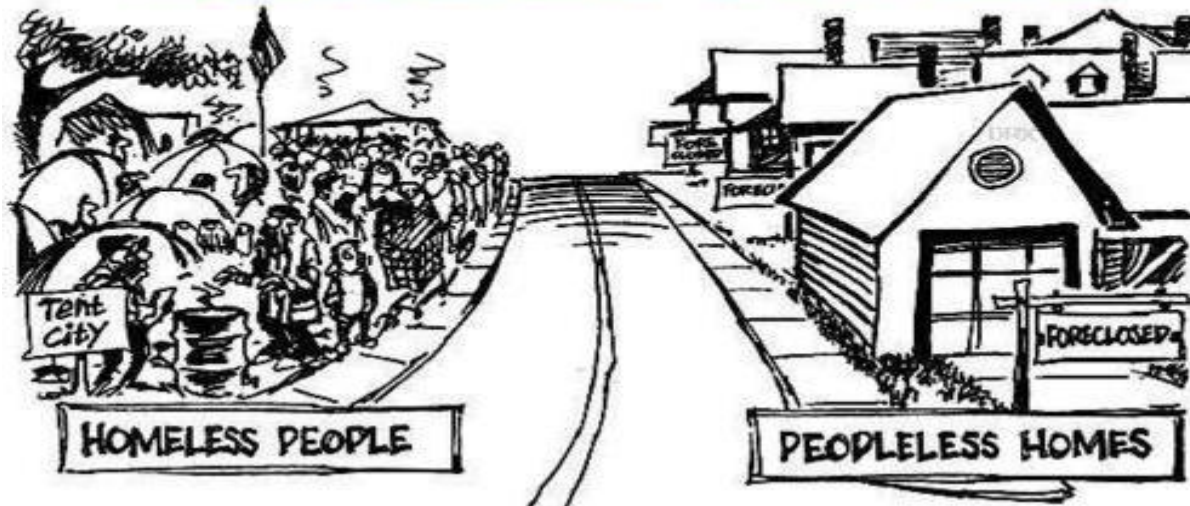
The shareholders are not sure what they should do. They want the buy-out to continue, but not at the cost of causing a strike that could result in big losses for the company and the industry. A resolution needs to be found as soon as possible.

Over and above the concerns raised above a recent incident occurred, whereby an employee fell whilst packing the shelves. This was reported to the office manager and his reply was, "Sorry, but this is not my issue, employees must look out for their own safety, don't blame the company!"

The employee complained about this, and indicated that safety was part of the code of ethics. The office manager exclaimed, "I do not care, besides, there are so many limitations on this so called code of ethics, so why even bother!"

YOU ARE REQUIRED TO:		MARKS
(a)	Apply the RIMS strategy to resolve the issue in the above scenario.	(14)
(b)	Do you agree with the statement, “employees must look out for their own safety”? Justify your answer by identifying and explaining the myth evident.	(4)
(c)	Identify any four limitations of a code of ethics.	(4)
(d)	Name the concepts inherent in the definition of ethics through the ethical triangle.	(3)
(e)	What is the UJ acceptable method of in-text referencing?	(1)
	TOTAL MARKS	(26)

FREE MARKET CAPITALISM



YOU ARE REQUIRED TO:		MARKS
(a)	Identify the distributive element depicted in the picture above.	(1)
(b)	Identify four productive successes as a result of capitalism.	(4)
(c)	State what the opposite of free competition is and the effects of this on the economy. Provide an example to illustrate your answer.	(4)
TOTAL MARKS		(9)

QUESTION 2

35 MARKS

The following article was recently published on www.qvs.co.za on 7 September 2015:

Confirmation of degrees a "growth industry" in SA

Businesses that employ executives who claim to have degrees or diplomas without first checking that they are valid face huge risks.

That's the warning from Danie Strydom, managing director of the Qualifications verifications company.

And because new employees who are not really qualified will not be able to do the job they are hired to do on the basis of the qualifications they claim to have, there is also a good chance that they might act unethically, he adds.

Cynthia Schoeman, managing director of the company Ethics Monitoring and Management Services, says fraud in the workplace has become a cultural institute in the South African labour market and that people often lie about their qualification or experience.

The revelation by British screening company that 25 percent of all CVs by it contained lies was to some degree mirrored in South Africa.

Strydom says that although our qualifications fraud rate is not that high in South Africa, anywhere between 15 to 17 percent of all queries prove to be problematic to some degree.

Some students claim higher marks than what they achieved, while others add subjects that they did not pass, he adds.

The British study of 3000 candidates conducted by the Risk Advisory Group found that CVs submitted by applicants for jobs in the British financial services sector contained at least three lies.

These ranged from lying about previous employers to lying about qualifications.

Unisa, the University of Pretoria, the University of Johannesburg and UCT have all made it clear that they will prosecute people who falsely claim to have degrees issued by their institutions.




YOU ARE REQUIRED TO:		MARKS
a)	Identify the transgression above.	(2)
b)	With consideration of both the Utilitarian and Deontological theories, discuss and conclude whether the presentation of a false qualification is ethical or not.	(10)
c)	Based on the Master Class on the Nuclear deal and alternative energy sources, name the nuclear reactor in Russia that melted down due to human error in 1986.	(3)
d)	Based on the Master Class on Gun Control, name the organisations that presented on the day.	(3)
e)	Based on the Master Class on the Social Grants and its effect on unemployment, what is the monthly amount received as a Child Support Grant?	(3)
f)	Imagine a scenario where you are the manager in a company and you catch a team member stealing petty cash. Identify and discuss whether your actions would differ if the team member was a stranger to you versus whether the team member was your older brother.	(3)
g)	Identify a relevant example of plagiarism that occurs in a student environment.	(2)
h)	Identify a remedy/solution for the risk of plagiarism.	(2)
i)	Name 2 advantages of blowing the whistle on illegal or immoral conduct outside of official channels to a source that is deemed fit to take appropriate action.	(4)
OVERALL PRECISION AND INTERPRETATION MARKS FOR THE ENTIRE ASSESSMENT		(3)
	Total marks	(35)

QUESTION 3**30 MARKS**

You have recently been appointed as the Internal Auditor of United Transport Alliance Pty (Ltd) (hereafter UTA). UTA is a leading provider of passenger and goods transportation services based in Bhubhesini, Kwa-Zulu Natal. The directors of UTA have become aware that King III requires all entities to apply the principles prescribed in the King III Code on Corporate Governance and have requested your assistance in improving the entity's corporate governance structures.

From the extensive disclosures, commentaries and reports in their last annual report, you were able to extract the following information pertaining to the board.

SUMMARY OF CURRENT CORPORATE GOVERNANCE STRUCTURE***Board of Directors***

Director	Photo	Background
	Mpiyakhe Zungu Board and Audit Committee Chairman, also Chief Executive Officer	Appointed to the board when the company was first incorporated during 2010. He is very autocratic and prefers to have all aspects of the board under his control 24/7, so he appointed members of his own family to the board.
	Thandeka Zungu Chief Financial Officer and member of the Audit Committee	Thandeka is a CA(SA) who obtained her qualification 10 years ago and decided to give acting a try for the next few years. She is the daughter of Mpiyakhe Zungu and currently works with him as the company CFO.
	Mkabayi Zungu Operations Director	Sister to Mpiyakhe Zungu. She was appointed in 2014 and also serves as the Deputy Chairperson of the board. She serves on 25 other boards in a non-executive capacity.

	Jabulani Zungu Non-Executive Director and member of the Audit Committee	Jabulani is the son of Mpiyakhe and has a BA(Law) degree. He is a successful corporate lawyer and provides legal advisory services to UTA.
	Samson Ndlovu Non-executive Director	Samson is the CEO of West Transport Alliance (Pty) Ltd, UTA's biggest competitor.
	Sibusiso Ndlovu Non-executive Director	Sibusiso resigned from the UTA Operations Director position in 2014. He now owns a vehicle repair business that provides all vehicle maintenance and repair services for the UTA fleet.

- Mpiyake Zungu considers all of the non-executive directors to be independent as they are not involved in the *daily* managerial decision making of the company.
- UTA has a unitary board structure and an audit committee. This is mainly because Mpiyake considers delegating the boards' responsibilities a waste of time – as he has to take ultimate responsibility for all functions anyway so they might as well remain under his control 24/7.

YOU ARE REQUIRED TO:

(a)	Evaluate the independence of each non-executive director in terms of requirements of the Code of Corporate Governance for South Africa (King III).	(10)		
(b)	<p>Identify and explain any suspected concerns in relation to the requirements of the Code of Corporate Governance for South Africa (King III) pertaining to the composition of the board and the composition, sufficiency and role of the board committees.</p> <p>Make use of the following table:</p> <table><tr><td>KING III CONCERNS</td><td>KING III REQUIREMENTS</td></tr></table> <p>PRESENTATION AND LAYOUT</p>	KING III CONCERNS	KING III REQUIREMENTS	<p>(19)</p> <p>(1)</p>
KING III CONCERNS	KING III REQUIREMENTS			