

Auditing 3B (ODT3B01)
Governance and Control (GAB3AB0)

FINAL ASSESSMENT OPPORTUNITY

19 November 2016

First examiners: **Ms Rozanne Smith**
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Second examiners: **Ms Vanessa van Dyk**
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External moderators: **Ms Elenor Jensen**
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Total time: **2 hours and 30 minutes**

Total marks: **125 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. Calculate the time that you should spend on each question and part of a question by multiplying the number of marks by 1.2 to determine the time, in minutes, available for each question. Adhere to these time constraints in order to finish the paper in the given time.
4. Delete all (even single open lines) open spaces on your answer sheets with pen. Pages on your answer sheets that contain open spaces will be marked as such and those pages will not be eligible for a remark.
5. 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 those pages will not be eligible for a remark.
6. All the examination regulations of the UJ and the policy document for students of the Department of Accounting will apply before, during and after this test.
7. The neatness, disclosure and presentation of your answers will be taken into account when marking your paper.
8. Read the questions carefully. If you are required to provide explanations, you must use full sentences.

Question 1**(30 Marks)**

Siphamandla Mokoena is a professional accountant and is registered with SAIPA. He is the accountant of BASF (Pty) Ltd, an entity that manufactures and sells roundup weed killer to farmers. BASF was founded by Siphamandla's grandfather in 1935. BASF has various branches in South Africa, most of which are situated in the Free State and Cape Town.

Due to BASF's public interest score being 89, they are required to be independently reviewed. Siphamandla also has his own Accounting firm, namely Mokoena Accountants Inc. and provides the independent review as well as other tax and consultation services to BASF. Siphamandla is very passionate about BASF and has only great things to say about the company.

Siphamandla has been the accountant of BASF for almost 20 years and was promised by his grandfather that if he ensures that all their taxation disclosures are perfect, he will one day get control of BASF.

Siphamandla heard that you are studying B Com Accounting and wanted your advice on a few matters.

Below you will find information about the audit committee:

Audit committee	
<u>Members include:</u> Mandela Mokoena	Chief executive officer (B Com Engineering) <i>Siphamandla's grandfather</i>
Lesego Redebe	Chairman of BASF (B Com Marketing)
Maria Manyane	Independent Non-executive director (Agricultural diploma). <i>She has a farm in Kroonstad and is BASF's major customer.</i>
Liezl Miller	Independent Non-executive director (Sport psychology). <i>She holds 10% shares in CASF, a subsidiary of BASF.</i>
The audit committee only met once during the financial year.	
BASF is considering appointing an external auditor to provide audit services. All the members of the committee agreed that it is not their responsibility to appoint external auditors, and that the board should address this.	
The audit committee confirmed that all communication to shareholders should be done by the board. They have no responsibility to disclose information due to confidentiality.	

You are required to:

Siphamandla wants you to assist him with the following queries (a & b) that he is struggling to address within BASF.

- a) From the above scenario identify concerns in terms of the Code of Corporate Governance of South Africa (King III), and for each of the concerns, provide a recommendation to BASF in terms of King III. (15)

Your answer should be in tabular format as indicated below:

Concerns in terms of King III	Recommendations in terms of King III
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- b) Explain in detail the process you will follow when finalising an independent review engagement. (5)
- c) Explain to Siphamandla that, based on the information provided above regarding his accounting practice, Mokoena Accountants Inc., it is clear that there are certain fundamental principles of SAIPA that are being threatened. Name and describe these threats and provide an example from the above scenario. (10)

Question 2**(30 Marks)**

Below you will find an extract from the Mail and Guardian about a report on irregular expenditure.

SABC reports irregular expenditure of R3.3 billion**Mail and Guardian****Andisiwe Makinana, 22 October 2015 06:48**

The SABC has reported an irregular expenditure of a whopping R3.3-billion in the financial year that ended in March 2014, above and beyond from the R100-million that the public broadcaster reported in the overall spend of R6.6-billion over the period.

While members of parliament (MP's) were outraged by the irregular expenditure, the explanation from the public broadcaster left them even more baffled. The SABC's acting chief financial officer (CFO) James Aguma admitted to Parliament's oversight committee on communications on Tuesday that the irregular expenditure disclosed in its 2013/14 annual report included some of the following expenses:

- An all-expenses paid trip for him and his family to Europe. This was to thank him for the amazing work that he had done in his time as CFO.
- An amount that had to be paid in order to secure a tender and to ensure that the SABC could broadcast all soccer events.
- A large amount was paid to his son that provides risk assessments and fraud prevention plans to public companies. He has not yet performed any of the assessments as he is extremely busy, but promised to do so in the future when his schedule is clear. He said that the SABC has not had a risk assessment in 3 years, and a few more months will do no harm.
- A massive amount of money was spent on staff wellness. Their yearend function cost them more than R84 000 000. He says it is money well spent and all staff were well rested when they returned from their 5 day trip to Zambia.

MP's expressed concern that the SABC's policies were not in line with the laws of the country. Issues around companies and their tax clearance certificates had over the years also contributed to the irregular spend.

Aguma said that the irregular expenditure was not his fault, or any members of the board. He blamed the accounting clerks and said that there was a serious lack of reconciliations, which was confirmed by the external auditors. He also said that if more time was spent on collecting all money due, then the SABC would perform better financially.

Aguma said the corporation's previous accounting officers would have to account on this front, and that he would not take accountability for any of the expenses. *(Amended)*

Adapted. Available from: <http://mg.co.za/article/2014-10-22-sabc-resports-an-irregular-expenditure-of-r33b>

You are required to:

- a) Discuss in detail why the actions of the accounting authority of SABC contravened the Public Finance Management Act (PFMA), and discuss the consequences. (30)

Question 3**(20 Marks)****Part A****(10 Marks)**

1. Who has the responsibility to periodically review the internal audit activity's (hereafter IAA) charter?
 - a. The board of directors.
 - b. Senior management.
 - c. The Chief Audit Executive (hereafter CAE).
 - d. The internal audit manager.
2. How regular should the CAE confirm the organisational independence of the IAA to the board?
 - a. Quarterly.
 - b. Annually.
 - c. Never.
 - d. Bi-Annually.
3. Which one of the following will be an impairment of an internal auditor's objectivity?
 - a. Performing an assurance service for specific operations for which they were previously responsible for.
 - b. Personal conflict of interest.
 - c. Accepting a gift of significant monetary value.
 - d. All of the above.
4. In the event of an internal auditor providing an assurance service and they lack the knowledge, skills and other competencies to perform the service, what is the responsibility of the CAE?
 - a. The CAE should obtain competent advice and assistance.
 - b. Carry on with the assurance engagement.
 - c. Decline the assurance engagement.
 - d. None of the above.
5. In the event of an internal auditor performing an assurance service, what does the internal auditor need to consider to comply with due professional care?
 - a. Extent of the work needed to achieve engagement's objectives.
 - b. Relative complexity, materiality or significance of matters to which assurance procedures are applied.
 - c. Probability of significant errors, fraud, or non-compliance.
 - d. All of the above.
6. What is the best way that internal auditors can ensure that they enhance their knowledge, skills and other competencies?
 - a. Being part of difficult internal audit engagements.
 - b. Continuous professional development.

- c. Nothing, as it is not necessary for internal auditor to enhance their knowledge and skills.
 - d. None of the above.
- 7. Who has the responsibility to develop and maintain a quality assurance and improvement program?
 - a. The board of directors.
 - b. The internal audit manager.
 - c. The CAE.
 - d. The audit committee.
- 8. What is the main purpose of the quality assurance and improvement program?
 - a. To evaluate the internal auditor's conformance with the definition of internal auditing.
 - b. To evaluate the internal auditor's conformance with International Professional Practice Framework Standards (hereafter IPPF).
 - c. To evaluate whether the internal auditors are applying the Code of Ethics.
 - d. All of the above.
- 9. How often should an external assessment be conducted?
 - a. Once every five years.
 - b. Once every two years.
 - c. Every year.
 - d. As the CAE feel it's necessary.
- 10. Who will be responsible for an external review?
 - a. The CAE.
 - b. A qualified, independent reviewer or a review team from outside the organisation.
 - c. The audit committee.
 - d. The board of directors.

You are required to:

Choose the correct answer from the above multiple choice questions and indicate your answer in your answer book.

Your answer should be presented in your answer book as follows:

- 1. A

Part B**(10 Marks)**

You are an internal auditor of APC Inc., an accounting firm. You were assigned to provide internal auditing services to Sweets from Heaven (hereafter SFH) (Pty) Ltd. SFH is a large manufacturer and wholesaler of a wide variety of sweets e.g. chocolates, toffees, jellies and sour sweets.

The owner of APC Inc. Mr. Tiaan Grimbeek, explained to the manager of SFH the internal audit process that was followed when they performed internal audit service at SFH. The internal audit process they followed can be described as follows:

- The internal audit manager was responsible for managing the IAA to ensure it added value to the organisation.
- One of the new internal audit trainees was responsible for establishing the risk-based internal audit plan as no one else had the capacity to do so.
- The CAE decided that it will not be necessary to identify and consider the expectations of senior management and the board as they knew what was expected.
- The internal auditors developed and documented a plan for the engagement containing the scope of the engagement.
- The internal auditors decided they will not develop and document a work program as the plan was considered sufficient.
- The internal audit manager supervised the engagement as the CAE was on holiday.
- The results of the audit engagement was only communicated to senior management. Senior management read the report and informed the internal auditors that they were happy with the findings.
- The internal auditors explained to senior management that they are taking on too many risks and therefore their level of inherent risk is too high. They recommended that SFH implement controls. Senior management refused and APC left all the matters as is.

You are required to:

Identify the violations in terms of the International Professional Practice Framework Standards (hereafter IPPF) during the process that APC Inc. followed when providing an internal auditing service to SFH. (10)

Your answer should be in tabular format as indicated below:

Violations in terms of the IPPF	Recommendations in terms of the IPPF
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Question 4**(25 Marks)**

Cross Roder Ltd (hereafter CR), is company that recently listed on the Johannesburg Securities Exchange (hereafter JSE). CR is a company that manufactures a very popular car brand and they specialise in sport utility vehicles (hereafter SUV). Since their listing on the JSE and the release of their brand new SUV namely, Cross Roder XT, CR has become very successful.

The Chief Executive Officer (hereafter CEO) Mrs. Dora Khumalo has concerns regarding their new listing on the JSE, as she wasn't sure whether they will be able to keep up with all the listing requirements. Since you are an expert on the Companies Act, Mrs. Dora Khumalo asked you to give CR advice on decisions that were made at the board meeting.

Mrs. Dora Khumalo presented you with a copy of the minutes of meeting containing all the decisions that were made. The copy of the minutes of meeting is listed below:

Cross Roder Ltd Copy of the minutes of meeting 243 JG Strydom Road 1724 19 November 2015
The following matters were discussed at the meeting: Shares were issued to the financial director to thank him for his excellent services throughout the year. All of the members present at the meeting voted in favor of this decision. Mrs. Dora Khumalo made the executive decision to grant a loan to the Marketing Director, because she was struggling financially. Mrs. Dora Khumalo decided that the Marketing Director can also pay back the loan when she is financially able to do so. Matters to be discussed at the next meeting: The appointment of an auditor since CR still has not appointed anyone to serve as the auditor provide auditing services.

You are required to:

Discuss the contraventions of the Companies Act 71 of 2008 that are evident from the above scenario and provide suitable recommendations for the contraventions. Your recommendations must include specific guidance on the relevant area from the Companies Act 71 of 2008. (25)

Question 5**(15 Marks)**

Family Fitness (hereafter FF) CC. is an extremely upmarket health club in Kempton Park. FF caters for every individual through a broad range of different facilities and programs. Lucky Dube the managing member of FF heard that there were amendments made to the Close Corporation Act (hereafter CC) as a result of the new Companies 71 of 2008. You are a compliance specialist and have therefore been approached by Lucky Dube to give him/FF advice on some of the questions they have regarding the CC Act.

Lucky Dube presented you with the following questions.

1. Is it compulsory for all the CC's to convert to a company and can they still register a new CC?
2. What will the procedures be should they decided to convert to a company?
3. Is it still compulsory for every new member to make an initial contribution to the CC and what type of contribution should they make?
4. They are currently 10 members, can they appoint more as FF is expanding rapidly?
5. Should a payment be made to a member are there any specific requirements to be met regarding payments?

You are required to:

Draft a memorandum to Lucky Dube responding to the questions in the scenario in terms of the Closed Corporation Act. (14)

Presentation mark (memorandum format) (1)