



UNIVERSITY OF JOHANNESBURG
FACULTY OF ECONOMIC AND FINANCIAL SCIENCES
DEPARTMENT OF ACCOUNTANCY
NOVEMBER ASSESSMENT

COURSE: M.COM (COMPUTER AUDIT)

PAPER: 19 NOVEMBER 2016

MARKS: 200

TIME: 08H30 TO 13H30

ASSESSOR: Mr J van Graan

MODERATOR: Mr H Zulch

NUMBER OF PAGES: 7

INSTRUCTIONS TO CANDIDATES:

- Question papers must be handed in.
- This paper is an open book assessment.
- Read the questions carefully and answer only what is asked.
- Number your answers clearly. You answer the questions in the examination books provided or on your laptop. If you use your laptop please ensure that you use a header - your name and student number - and a footer -page x of xx. Save your answer under your name and student number.
- Write neatly and legibly.
- Structure your answers by using appropriate heading and sub-heading.
- The general University of Johannesburg policies, procedures and rules pertaining to written assessments apply to this assessment.

CASE STUDY

You are the recently appointed General Manager: Audit, Risk and Compliance of Widget Mining and Manufacturing (Pty) Ltd (WMM). You obtained the following information during background research and questions at the interviews before accepting the job.

WMM has 3 mines in Africa mining widget deposits and one manufacturing plant in South Africa where they produce Widgets (70% of all Widgets manufactured in South Africa and 20% of worldwide production). The one mine is in South Africa (80% of the known South African deposit of widget being actively mined), the second mine is in the DRC (80% of the known DRC deposit of widget being actively mined) and the third in Angola (70% of the known Angolan deposit of widget being actively mined).

The demand for Widgets is about 200% more than what is currently produced in the world. This resulted in high prices and an active exploration for more deposits.

The exploration unit of WMM has found two big deposits of widget. The first is in the Karroo in South Africa and the second is in Chile in South America. WMM has secured the rights to mine these deposits. When WMM starts mining these two new deposits it will mean that WMM will own mines that cover 60% of known world deposit of widget actively being mined.

The plant in South Africa is at 100% production capacity and is using 100% of widget mined in South Africa and 30% of widget mined in Angola by WMM. The rest of widget mined in Angola and 100% of widget mined in the DRC is sold to manufactures of Widgets outside South Africa.

Widget mining is labour intensive where Widgets manufacturing is capital intensive.

5% of Widgets manufactured is sold to South African retailers, 90% is exported and 5% is sold over the Internet.

WMM has made an offer for its biggest competitor Watsenaam Myn & Fabriek (WMF) that produces 20% of remaining Widgets in South Africa. The plant of WMF is currently running at 30% capacity because the deposit of widget in the mine it owns has been 95% depleted. The offer for WMF is for the 100% of the shares of the company and not only for the plant. WMF has tried in the past to buy widget from WMM. WMM however declined because it had long term contracts for the sale of widget from the DRC and Angolan mines.

WMM intends to list on the Johannesburg and New York stock exchanges to raise funds to develop mines in Chile and the Karroo and to also build a plant in Chile.

The reason for your appointment is that the advisors for the dual Initial Public Offering (IPO) have identified weaknesses in the Governance processes at WMM. They further recommended that WMM obtain ISO 9001 (Quality) and ISO 14001 (Environmental) certification for all its operations and OHSAS 18000 (Health & Safety) certification its South African operations.

Currently WMM have a Financial Internal Audit division of 10 people of which 8 is based in South Africa and 1 each in Angola and the DRC. The IT audit division consists of 2 people based in South Africa and the Health and Safety audit division consists of 4 people 1 based in DRC, 1 in Angola, 1 at the mine in South Africa and 1 at the plant in South Africa. WMM also have an Anti-Corruption division consisting of 1 person based in South Africa.

WMM has no staff or processes in place for Enterprise Risk Management (ERM), Combined Assurance, Business Continuity Management, or Legal Compliance.

As part of your induction you have visited all the operations and have recorded the following cryptic notes in your personal diary:

DRC Mine:

- Visit started badly. I had to pay border guard \$50 to let me thru customs. He claimed there was something wrong with my yellow fever card. As alternative to \$50 he offered to inject me again. I did not get a receipt. Note to myself - Follow up with anti-corruption on how to handle this in future.
- Traffic is terrible. People drive like maniacs. Car not roadworthy. Seatbelt broken
- On entering mine premises noted big diesel spill at truck yard.
- Good security at the gate with electric fence around the mine. However no security in the offices. When trying to find the toilet I walked into the computer centre.
- Air-conditioner not working in the computer centre.
- Electrical power extension cabling is visible all over one of the offices, multi-plugs upon multi-plugs.
- On entering the mine I was issued personal protective equipment (PPE) a hardhat, overall and safety boots. My boots was very uncomfortable and I noticed that most miners did not wear safety boots.
- Open areas around the mine entrance were relatively clean and deposit of widget neatly stacked and ready for shipment.
- The mine manager states that stock represents about 6 months production. The reason for this large stock holding is that he refuses to pay facilitation fees to customs officials to have it shipped. He however states he is fully up to date with his contractual obligations to buyers.
- The mine manager stated his biggest concern is that he needs to pay (due to lack of banking services) all suppliers cash. He stated that at any given moment he has over \$1mil in the safe in his office.

Angolan mine:

- Visit started better. Was met by protocol. I was whisked thru terminal building. No obnoxious border guard. Handed over my passport to protocol (only got it back just before boarding return flight).
- Traffic better. Seatbelts not used by anybody.
- Trip to the mine was held up for 3 hours by a demonstration of striking workers. Driver remarked it was dock and railway workers.
- Perimeter security at mine and in buildings appears good.
- The local file and DNS servers are positioned under the desk of the local IT administrator.
- On tour noticed diesel spills at all generators.
- Was disgusted by stink of wastewater from the mine hostel flowing directly into adjoining river.
- Safety boots more comfortable and noticed miners do wear their boots but not their hardhats.
- The excavator cage going down into mine open on one side. Seems easy for somebody to get hurt.
- Noticed that there was very little mined widget in the stock holding area. When asked why so little the mine manager stated that he was getting behind on filling his contractual obligations to buyers (including the plant in South Africa) due to a 6 months long strike by dock workers. On your question how he managed to get it shipped he replied his brother, a general in the army, did him a favour.
- When asked what his biggest problem was other than shipping he replied it was the data connection to South Africa.

South African mine:

- On driving to the mine we went past an open cast mine that looks like a desert and with lots of erosion. The driver identified this as the mine belonging to WMF
- Normal SA traffic- taxis the main danger.
- Perimeter security at mine and in buildings appears good.
- On tour noticed diesel spills at all generators.
- This mine is an open cast mine. Some rehabilitation of new plants visible at mined out areas.
- Miners all wear hard hats and safety boots.

South African plant:

- PPE consists of ear mugs and safety boots.
- Was impressed by automation: widget (raw material) in one side and Widgets (completed product) out other side.
- Factory foreman complaints about black outs and lack of generators.
- The one generator observed was not working and again the diesel spill.

- The computer room (in one location) is also used for storage of spare office supplies and the key is hanging outside the room on a string.

South African Head Office:

- Situated on two floors of a five floor office park in Sandton.
- Good access control, specifically the computer centre.
- My parking next to generator. My shoes full of diesel.

As a first step you meet with each of you direct reports. Below find notes you kept from each meeting:

Internal Audit:

- Most of audit findings in past year dealt with override of controls by management and weaknesses in information security.
- There were a number of frauds in the finance department due to lack of division of duties.
- IT equipment is just added as and when needed, resulting in too much equipment in computer centres.
- A number of electricity blackouts occurred with failure of generators. This resulted in some systems going down because it was not on an UPS. (When installing it, IT failed to connect it to UPS).
- The website has terms and conditions on it that states that a customer that purchase Widgets online has no recourse to return it.
- The pictures of Widgets on the website do not look like the real product.

Health and Safety Audit:

- There is a lack in the tone at the top. Cost savings are more important than legal H&S compliance.
- In South Africa, staff are happy to wear PPE but in Angola and the DRC it is difficult to change the culture to get staff to wear PPE. Budget has never been a problem for PPE.
- No medical examinations of staff has ever been done.
- 5 plant workers have been put on disability retirement due to hearing loss in past 5 years.
- No safety committee meetings has been held in past 3 years.

Anti-Corruption:

- There is good support at the top to stamp out paying bribes to secure business.
- When people have accepted bribes from suppliers they have been fired.
- Facilitation payments such as paying to release good quicker from customs are condoned.

- He has not been allocated a travel budget to visit the DRC and Angola.

Questions 1 to 4 is based on above Case Study.

QUESTION 1

(10 MARKS)

Explain how a business traveller in Africa should react when asked for a bribe. In your answer give an opinion if there is a difference between a company only listed in South Africa and a company with a dual listing in South Africa and the USA

(10 marks will be awarded for the content, and 0 marks for the format).

QUESTION 2

(20 MARKS)

Submit a plan to the Audit, Risk and Compliance (ARC) Committee of WMM for the establishment of Enterprise Risk Management (ERM), Combined Assurance, Business Continuity Management, Legal Compliance, Environmental Audit and Quality Audit functions.

In your plan explain how many resources you will need now (and where they be based) and how many you will need once the IPO has taken place.

(19 marks will be awarded for the content of your answer, and 1 marks for the format of the answer).

QUESTION 3

(20 MARKS)

At the ARC meeting you are asked to explain your approach to/philosophy for performing the following functions:

- ERM (7 marks);
- Legal Compliance (7 marks);
- Combined Assurance (6 marks).

(20 marks will be awarded for the content of your answer, and 0 marks for the format).

QUESTION 4

(110 MARKS)

After your visits to the various operations your new CEO ask you to produce a report on the internal control weakness and risks (with reasons) based on you observations during the visits and information you obtained in your background search before accepting the position.

Use the following as guideline in your answer

- Risks =20
- BCM =10
- IT =15
- Internal Controls =20
- H&S =10
- Environment =10
- Consumer =10
- Competition =10
- Anti- corruption =5

(105 marks will be awarded for the content of the report, and 5 marks for the format of the report.)

QUESTION 5

(20 MARKS)

At the ARC you are asked to prepare a paper on how to implement the new privacy (POPI) legislation in South Africa.

(19 marks will be awarded for the answer, and 1 mark for the format of the answer).

QUESTION 6

(20 MARKS)

There are 3 main approaches for Business Continuity Plans. These are resilience, redundancy and rebuilt.

- A. Which of the above three approaches fits best with the active – active configuration of systems. (1 mark)
- B. Which of the above three approaches fits best with the active – passive configuration of systems. (1 mark)
- C. A bank have the following three systems. Choose a BCP approach for each and motivate why. (9 marks)
 - 1. Controlling and managing ATM's;
 - 2. Credit scoring for new loan applications;
 - 3. Reserve Bank reporting.
- D. A Hotel Group (Owning 50+ hotels worldwide) have the following three systems. Choose a BCP approach for each and motivate why. (9 marks)
 - 1. Internet reservations;
 - 2. Kitchen and Conference planning and maintenance (including stock control and meals preparation);
 - 3. Occupancy reporting and planning.

(20 marks will be awarded for the answer, and 0 mark for the format of the answer)