

Accountancy@UJ



Governance and Control 2B 2017

LAST ASSESSMENT OPPORTUNITY - SCENARIO

15 NOVEMBER 2017

FIRST EXAMINERS: MS P RAMA
MS S VENTER

READING TIME: 25 MINUTES

WRITING TIME: 2.5 HOURS

INTERNAL MODERATOR: MRS R SMITH

MARKS: 125 MARKS


INSTRUCTIONS:

1. This part of the paper consists of **SIX** 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. You have 25 minutes reading time. During this time you are only allowed to read and make notes on the question paper (scenario). You are not allowed to write anything on the answering sheet. The required section will only be provided to you once the reading time is finished.
3. Answer all the questions.
4. Answer each question on a **separate folio as instructed**.
5. Calculate the time that you should spend on each question by multiplying the number of marks for each question 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.
6. 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.
7. 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.
8. All the examination regulations of the UJ and the policy document for students of the Department of Accountancy will apply during this assessment.
9. Hand this paper in, as it will be distributed with your marked answer sheet.
10. The neatness, disclosure and presentation of your answers will be taken into account when marking your paper.
11. Read questions carefully, if you need to provide explanations you should always use full sentences, refrain from simply naming facts.

QUESTION 1**25 MARKS****(30 MINUTES)**

You are the senior accountant at The Sweetery (Pty) Ltd. The following internal sales order and delivery note required authorization.

Jade Traders is a new customer. No credit check was done on this new customer.

Internal Sales Order				
				
Company Details				
The Sweetery (PTY) LTD			Date	
44 Stanley Avenue			Invoice #	
Contact No: 011 334 5555			Customer ID	
Invoice to:				
Jade Traders				
Address:				
Contact no:				
ITEM #	DESCRIPTION	QUANTITY	UNIT PRICE	TOTAL
3434	Tangy marshmallows	10	30	290
2424	Jelly beans	5	20	100
6263	Smarties	20	10	190
				580
VAT				11%
Total with VAT				638

DELIVERY NOTE				
Delivery Address				
Jade traders				
Please check this delivery note against you order and sign where indicated. Thank you.				
Item	Description	Total	Checked and Received	
3434	Tangy Marshmallows	290	✓	
4242	Coconut sweets	100	✗	
6263	Smarties	190	✓	
Order checked by:		Name:	Signature	Date
		Neville Dlamini		
Note by Neville Dlamini:				
We have not ordered Coconut sweets, and will not sign the delivery note until this item is received.				

Even though the delivery note was not signed and an invoice was not processed yet, the accountant processed the following transaction in the accounting records:

Dr	Debtor	638
Cr	Revenue	638
	<i>Recording of Revenue transaction</i>	

QUESTION 2

20 MARKS

(24 MINUTES)

You are a member of the internal audit team engaged in the audit of Bamboo (Pty) Ltd, a furniture manufacturing company. You have been requested to perform a review of the general controls of Bamboo (Pty) Ltd.

The following information is relevant:

Issue 1

- 1) To assist you in your review, Mr. Ted Timber, the financial accountant, arranged for you to obtain his secretary, Mrs. Sally Marantis's password, to gain access to the accounting applications. She informed you her password was "SALLY" and that her password would never have to be changed.

Issue 2

- 2) The following control weaknesses were found around the IT terminals:
 - 2.1) All users have access to the terminals;
 - 2.2) The IT terminal does not automatically shut down;
 - 2.3) A user may attempt to login as many times as required;
 - 2.4) There have been a number of "Disconnected" error messages;
 - 2.5) All terminals were not locked.

QUESTION 3

10 MARKS

(12 MINUTES)

Mr. Xolani Zulu, a Public Accountant, is currently a director at Vunani (Pty) Ltd. At a recent meeting, a decision was made to appoint Zulu Consulting services as the preferred consultants to the business. This contract was signed for a period of five (5) years. Mr. Xolani felt it was not important to mention that he runs this business on the "side".

QUESTION 4**20 MARKS****(24 MINUTES)**

After the completion of your studies, you were recruited by the audit firm of Able & Co as an internal auditor.

You have been requested to join a current team that was outsourced to Stratco Ltd (hereafter Stratco) to complete an evaluation on the internal control systems.

Stratco is also an external audit client of Able & Co. They are a new client that signed up during the infamous "Able & Co Special Offer". This special offer meant that when signing with the audit firm, all members of the Stratco board would be treated to an all-expenses paid holiday to Mauritius. Also, Able & Co guaranteed that the audit fee would be lower than that charged by the previous auditor.

Stratco specialises in the extraction of chrome for the purposes of use in stainless steel products. Able & Co has not serviced a mining client to date.

Stratco had been looking for new auditors as their previous auditors were not comfortable to continue providing an assurance service to them. They were not able to elaborate but mentioned that outstanding fees were also an issue.

The engagement letter has not been signed to date.

QUESTION 5

50 MARKS

(60 MINUTES)

Please note two attachments for the purposes of this question.

Attachment A

Research Information produced by internal task team:

Sage & Lily (Pty) Ltd (hereafter S&L) is a well-established online boutique for unique and quirky children's wear. They have a strong national client base supported by a strong presence on social media. S&L pride themselves on doing ethical business. Their governing body consists only of Mr. Sihle Ncube (Chief Financial Officer (CFO)) and the founder and majority owner, Mrs. Lilian Sage.

They import most of their products from China where they only deal with selected suppliers. Their supplier relationships are healthy but their terms and conditions hold high penalty clauses for late payment. Also, their import taxes are one of their biggest expenses.

In the current financial year, it came to light that an ex-employee had intentionally misclassified clothes for the purposes of import taxes. The result was that S&L paid much less import tax than they were required to by customs due to this misclassification. The ex-employee thought that they might be rewarded by the company for cutting cost and delivering higher margins for sales.

An exciting new development was the credit offering to loyal online clients. Clients are able to purchase and receive immediately for a cart of up to R 3000, and then only pay after 30 days. Whilst this has led to immense sales growth, it has also come with a price of exceptionally high bad debt.

A recent incident on social media left them rethinking how actively they should manage their social media platforms. An unsatisfied customer, with quite a large following, noted that S&L products were of poor quality and that "no one should waste their time or money on them". Upon further investigation, it seemed like the dress that was bought had a prominent tear on the hem. S&L has the policy that each garment is checked upon receipt from the supplier so as to reverse the charge with the supplier but also to ensure quality product in the market.

S&L has not yet been able to appoint a risk committee.

S&L is a prime business for possible acquisition by bigger retail giants. With this as a long term goal, S&L has opted to apply the best practice corporate governance principles of King IV to increase chances of acquisition.

Attachment B

Risk Ranking Exercise - Message (HTML)

FILE MESSAGE INSERT OPTIONS FORMAT TEXT REVIEW

Cut Copy Paste Format Painter Clipboard

Calibri 11 A A Basic Text

B I U Address Book Check Names Attach File Attach Item Signature Include

Follow Up High Importance Low Importance Tags Zoom Apps for Office Add-ins

To... internalaudit@splusl.co.za

Cc...

Send

Subject Risk Ranking Exercise

Good afternoon,

I trust this finds you well.

Although you have not been required to rank any risks to date, we feel that it would be a valuable skill to the organisation.

As we look to the future, we want to upskill our financial team to be able to assist the Risk Committee.

I would suggest that you look at this as a personal development opportunity.

Kindly take the following 5 risks to S&L and rank these risks for me from 1 to 5 with 1 being our biggest risk.

The baby clothing industry appears to have many competitors
Hostile takeover of S&L
S&L inventory storage space based in <u>Yeoville</u> . Unfortunately this space has seen many security breaches in recent months
Expensive WIFI in South Africa
Resignation of the social media manager

Please make sure to explain the thinking behind each ranking.

I will get back to you with some feedback.

I look forward to your attempt.

In service,

Sihle Ncube CA(SA)
www.splusl.co.za

Chief Financial Officer
Sage & Lily Pty Ltd