

# Accountancy@UJ



**Governance and Control 3AB (GAC3AB0)**  
**Auditing 3B (ODT3B01, S3PACQ02, ADIA003)**

<p><b>FINAL ASSESSMENT OPPORTUNITY - SCENARIO</b> <b>10 November 2018</b></p>
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**FIRST EXAMINERS:** Ms Rozanne Smith  
Ms Belinda Schutte  
Mr James Matlala

**SECOND EXAMINERS:** Prof Ben Marx  
Ms Seabi Mokoena

**EXTERNAL MODERATOR:** Ms Nastassia Strydom

**READING TIME:** 25 Minutes reading time

**WRITING TIME:** 2 hours and 30 minutes

**TOTAL TIME:** 2 hours and 55 minutes (including reading time)

**TOTAL MARKS:** 125 marks

**INSTRUCTIONS:**

1. This paper consists of **seven** 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. You have **25 minutes** reading time. During this time you are only allowed to read and make notes on the question paper. You are not allowed to write anything on the answering sheet.
5. 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**.
6. 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.
7. 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.
8. The neatness, disclosure and presentation of your answers will be taken into account when marking your paper.
9. Read the questions carefully. If you are required to provide explanations, you must use full sentences.

**Question 1****(60 Marks)**

Steel Box Containers (Pty) Ltd (hereafter SBC) is a leading provider of high-quality new and used shipping containers and refrigerated containers. Drawing on two decades of experience, they also offer expert conversion of containers, customizing them for a wide range of uses, from ablution facilities to kitchens and homes. Their mission is to create and use space in innovative ways, and to enable people to achieve their business objectives through the spaces they provide. SBC was founded in Cape Town in 1997 and today SBC is one of the biggest privately owned container rental, sales and conversion companies in Africa. It has branches in Cape Town, Johannesburg and Pretoria. As SBC is considering a listing on the Johannesburg Stock Exchange (hereafter JSE), they decided to get you, a Governance expert, to assist them with ensuring that they meet the requirements as set out in King IV and the Companies Act 71 of 2008.

**Part A:**

Below you will find the company portfolio in terms of the Governing Body (hereafter GB) and the supporting committees.

<b>GB member</b>	<b>Details about the member:</b>
Mr K Maree	Chief Executive Officer (hereafter CEO) of SBC. He holds a diploma in business management.
Mr B Thulsie	Chairman of SBC. Owner of Big Box Furniture, a major supplier of SBC. He is a qualified Chartered Accountant.
Mr B Naidoo	Marketing director. He holds a post graduate diploma in marketing.
Mr K Moloo	Human Resources director, graduated from the University of Johannesburg with a degree in Human Resources.
Mr KJ Sibanyoni	Independent Non-Executive Director (hereafter INED). Holds 13% shares in SBC. He has a degree in Engineering.
Mrs KI Nyambose	INED and wife of CEO of SBC and retired professional athlete. She holds a degree in Sport's Psychology.
Mr BD Da Costa	INED with 20 years' experience on the GB of SBC.

**Committees, their composition and their functions:**

<b>Committee</b>	<b>Members</b>	<b>Performance Evaluation</b>	<b>Disclosure:</b>
Audit Committee	Mr K Maree Mr B Thulsie Mrs KI Nyambose	Done every 5 years.	The following information was disclosed in terms of the above committees: <ul style="list-style-type: none"> <li>• The composition;</li> <li>• The focus areas during the reporting period, and</li> <li>• The number of meetings held.</li> </ul>
Risk Committee	Mr BD Da Costa Mr K Moloo	Done every 2 years.	
Nomination Committee	Mr B Naidoo Mr K Moloo Mr B Thulsie	Done every 2 years.	
Remuneration Committee	Mr B Thulsie Mr K Maree Mr KJ Sibanyoni	Done every 2 years.	

The remuneration committee approved the new remuneration policy at their previous meeting. They were however not sure exactly what elements to include in the policy, and decided to include the following:

- Base-salary;
- Payments and termination of employment;
- Commission and allowances.

The committee will release the remuneration report at the end of the financial year. The report will include the background statement and an overview of the remuneration policy.

### **Part B:**

Sky Connect (SOE) (hereafter Sky Connect) approached the GB of SBC to partner with them in providing containers to business owners in informal settlements. These containers will provide the business owners with the opportunity to have a safe and effective working environment and will also assist in offering a great service and product to their clients. Sky Connect will provide the telecommunication services needed for the business to operate. They will also advertise this venture, and make sure they get more businesses to support this amazing cause. They also asked SBC for a R500 000 donation, and this will be distributed amongst the business owners who are selected to be part of this community engagement project.

The CEO of SBC proposed this project to the GB of SBC, but in their meeting there was a lot of objection from the other GB members. The reason for their objection started because of one newspaper article (see below) that was distributed by Mr K Moloo that was recently in the news, and involved Sky Connect.

<b>NEWS 27/7/365</b>
<b>Sky Connect (SOE) – Dipping into charity funds!</b>
<b>24 May 2018</b>
<b>13:54</b>
<b>Reported by: SN Mokoena</b>
It has come to our attention that Sky Connect is not being very honest in their dealings with community engagement projects. Information was provided by an employee (Mr X), who wants to stay anonymous, and he disclosed the following information.
The R500 000 donations received from corporate organisations are not being distributed to the business owners involved in the community project. Their funds have instead been used to pay for expensive holidays and “wine and dine” evenings for the accounting authority of Sky Connect.
Sky Connect’s creditors are also furious as they have long outstanding debts, and they do not settle their accounts with their service providers.
Another reason for their cash flow problems is that their age analysis shows long outstanding debtors accounts, and it is clear that no one tries to collect these funds.
SARS has also issued a report (on 23 May 2018) that states that Sky Connect has not paid any taxes for the previous year of assessment, and that they are currently investigating the allegations.
More information will be provided on this matter as it comes to light.

## **Part C:**

Below you will find a summary from the minutes of meetings for the fourth board meeting of SBC for this financial year:

<p style="text-align: center;"><b>Steel Box Containers (Pty) Ltd Board meeting</b> <b>10 November 2018 at 08:00</b> <b>Boardroom A Ring 222</b> <b>Cape Town</b></p>
<p>Attendees: All board members were present.</p>
<p><u>Matters discussed at the meeting:</u></p> <p><b>1. <u>Tenders for transportation of the shipping containers and the refrigerator containers:</u></b></p> <p>SBC recently realised that it was becoming very difficult for them to keep up with the delivery of the shipping containers and the refrigerator containers, as there was such a high demand for these products. Therefore, SBC decided to open applications for a tender to transportation companies in order to assist with the transportation of these shipping containers and refrigerator containers.</p> <p>ABC Transport was one of the companies who applied for the tender at SBC. The board of directors was very excited about ABC Transport, as their tender application was the best by far and offered SBC the best prices. All the directors voted in favour of the appointment.</p> <p>The company secretary of SBC noted that Mrs KI Nyambose, the wife of Mr K Maree, was the owner and majority shareholder of ABC Transport. No disclosure was made in this regard before the decision was put to a vote.</p> <p><b>2. <u>Issuing of dividend to the shareholders:</u></b></p> <p>Mr K Maree explained to the board that he made the executive decision to issue a dividend at the end of the year to all the shareholders as he felt it is important for SBC to show appreciation for their shareholder's loyalty.</p> <p><u>Closure</u></p> <p>After all matters were discussed, the meeting was adjourned.</p>

**Question 2****(40 Marks)**

Make a Wish (Pty) Ltd (hereafter MAW) is an online shop that offers a wide range of products to their customers. MAW was officially launched in 2010 and has evolved rapidly since their inception. They have opened new warehouses in Johannesburg, Cape Town and Durban, and expanded department selections to over 21 departments across Electronics, Lifestyle, Media and Gaming and Fashion. MAW strives to place their customers first and to provide the best possible customer service on the African continent.

**Part A:**

MAW recently appointed an accounting firm, namely Creative Accounting Inc., to provide internal auditing services to them. You were assigned to the internal audit team for MAW. The Chief Executive Officer (hereafter CEO) of MAW explained to you that they required you to provide an independent assessment of risk management, control and governance processes for MAW. The CEO mentioned to you that your findings would ultimately be used by the board of directors and the audit committee to make improvements in the organisation. After your investigation of MAW, you provided the CEO with the following process that you will follow when performing your internal audit services:

- The nature of the service will be defined in the internal audit charter (hereafter IAC). An internal audit trainee will be responsible to review and approve the IAC.
- One of the internal auditors on the team completed their articles with MAW last year. The Chief Audit Executive (hereafter CAE) thought having this internal auditor part of the team would be an asset as she knows and understands MAW.
- One of the responsibilities the internal auditors will have is to detect and investigate any possible fraud for MAW.
- A risk based internal audit plan will not be drafted as the internal audit team feels it's not necessary.
- An engagement plan will be developed and documented that includes the scope and timing. The plan will only consider the organisation's risks that are relevant for this engagement.
- The CAE decided it is not necessary to develop and document an engagement work program as the engagement plan is sufficient.
- The CAE mentioned that he will be available at the beginning of the engagement, but will be leaving for holiday during the engagement. Therefore, the internal audit manager will be responsible for the supervision of the engagement.

## Part B

Creative Accounting Inc. has decided to make some changes in their management structure and audit teams. They decide to create incentives in order to retain and attract competent Professional Accountants and other staff members, to ensure they continue to provide excellent services to their clients.

The Human Resource Director, Ms Loretha Litha, has suggested the following for the restructuring:

- Creative Accounting Inc. receives a significant part of their revenue from Roos Landscaping (Pty) Ltd because they provide both accounting and tax services to them. Ms Mahlangu decided to prioritise Roos's engagements in order to retain them as a client in the near future. She says that she fears losing them as a client because it may result in significant losses of revenue.
- Mr Gideon Gamede recently resigned as the financial director of Amandla Projects CC, and he has very rich and varied experience in the preparation of financial statements, finance, and tax. He will be joining Creative Accounting Inc., and will be the team leader of the engagement team in charge of Amandla.
- Amanzi Amtoti (Pty) Ltd is currently undergoing investigation for a financial irregularity therefore, Creative Accounting Inc. will be their representative as financial experts as the case is still under litigation.
- Creative Accounting Inc. is superseding the current accountants of Koto and Lengana Traders. The contract of the outgoing accountant was terminated with immediate effect. Creative Accounting Inc. began with the new engagement immediately, without any communication with the outgoing accountant.

The CEO of Creative Accounting Inc. provided the following databases of the new and existing clients.

New clients	Existing clients
Amamzi Amtoti (Pty) Ltd	Amandla Projects CC
Nonzwakazi Fabrics	Roos Landscaping (Pty) Ltd
Waterways (Pty) Ltd	Green Matter CC
Koto and Lengana Traders	PipeCo
	Silvanus Apparel
	ABC Acrylic Paints
	Amasiko Arts & Craft

It was also brought to your attention that Ms Zanele Zondo, the head of one of the audit teams, received an excellent review from one of our clients, Amasiko Arts and Craft. As a result she was awarded R50 000 in cash, and the use of a holiday house in Camps Bay, Cape Town. In order to maintain her status, she has given priority to the engagement over Amasiko Arts & Craft over other clients.

**Question 3****(25 Marks)**

Kipa and Maredi CC (hereafter KAM) is a poultry farm that was established in 1995. It is based in Ruimsig, and it supplies chicken and eggs to supermarkets in the West Rand. Evelyn Kipa is one of the founding members, and she has some queries about some of the decisions they want to take in order to maximise their revenue. These queries are detailed below:

1. KAM has nine members, and in order to raise capital they are considering admitting two new members who will hold joint membership. Evelyn also wants to know which persons will qualify to be members of a CC.
2. Are there persons that are disqualified from being members of a CC?
3. In the case where KAM had to be deregistered as a CC, what would the procedure be to follow with regards to the deregistration?
4. What are the guidelines in terms of quorums and adjournment of meetings?
5. What kind of payments may be made by KAM to its members, and what kind of payments are not allowed?

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**Auditing 3B (ODT3B01, S3PACQ02, ADIA003)**

**FINAL ASSESSMENT OPPORTUNITY - REQUIRED**

**10 November 2018**

**FIRST EXAMINERS:** Ms Rozanne Smith  
Ms Belinda Schutte  
Mr James Matlala

**SECOND EXAMINERS:** Prof Ben Marx  
Ms Seabi Mokoena

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**Question 1****(60 Marks)****You are required to:**

- a) In Part A, identify your concerns regarding SBC's application of the recommended practices contained in the King IV Report. For each concern explain how the SBC can improve their recommended practice to adhere to King IV. (25)

**Your answer should be in table format as follows:**

Concerns regarding practices (7)	Recommendations regarding practices (18)
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- b) In Part B, identify the contraventions in terms of the Public Finance Management Act (PFMA) that Sky Connect is guilty of, and for each contravention, provide a recommendation in terms of the PFMA. Also discuss the procedures to be followed in should Sky-Connect be guilty of financial misconduct. (15)

Please ensure that you follow the **state, define, apply and conclude** method to answer the question b.

- c) In Part C, discuss the contraventions of the Companies Act 71 of 2008 that are evident from the scenario and provide suitable recommendations for the contraventions. Your recommendations must include specific guidance from relevant sections of the Companies Act 71 of 2008. (19)

Please ensure that you follow the **state, define, apply and conclude** method to answer question c.

**Presentation mark (Format) (1)****Question 2****(40 Marks)****Part A****You are required to:**

- a) Identify and discuss the type of internal audit service that you will be providing to Make a Wish (Pty) Ltd. (6)
- b) Assuming you will be providing an assurance service, identify the violations in terms of the International Professional Practice Framework Standards (hereafter IPPF) during the provision of internal audit services to Make a Wish (Pty) Ltd by Creative Accounting Inc. (19)

**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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**Part B****You are required to:**

- a) In terms of the IFAC Code of Ethics, identify and define the threats from the scenario, and provide an example/s of each threat from the scenario. (8)

- b) Describe in detail the process that must be followed when proposed accountant supersedes an existing accountant. (7)

**Question 3**

**(25 Marks)**

**You are required to:**

Write a report to Evelyn Kipa, and respond to the queries she raised by referring to the provisions, and relevant sections contained in the Close Corporation Act. (20)

**Presentation mark (Format) (1)**

**Precision and interpretation marks (4)**