



FACULTY/COLLEGE	College of Business and Economics
SCHOOL	School of Accounting
DEPARTMENT	Department of Accountancy
MODULE NAME	Governance and Control 2A
MODULE CODE	GAC02A2/GAC02B2/GAC2B01

ASSESSMENT DATE	8 June 2019		
ASSESSOR(S)	Mr Waldo Oberholzer Mr Peter Lansdell		
MODERATOR(S)	Ms Rozanne Smith		
DURATION:	170 minutes		
Reading time	20 minutes	Writing time	150 minutes
TOTAL MARKS	100 marks		
NUMBER OF PAGES OF QUESTION PAPER (including cover page)	7		

INFORMATION/INSTRUCTIONS:

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- During the **reading time** you may make notes on your question paper but may not write in your answer booklet.
 - 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.
 - 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.
 - All the examination regulations of UJ and the policy document for students of the Department of Accounting will apply during this assessment.
 - Keep this paper for your record purposes.
 - The neatness, disclosure and presentation of your answers will be taken into account when marking your paper.
 - Answer all the questions.
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Important Note:

- Please answer Question 1 and its sub-sections in **one** answer book.
- Clearly indicate your **unique exam number** by writing it on the cover page of the answer book provided.

QUESTION 1**50 MARKS****BACKGROUND INFORMATION**

You are a first-year trainee professional accountant at the Student Transport Company (Pty) Ltd (hereafter STC). Solly Dube founded STC in 2012 and STC has since grown rapidly to become one of the most successful transport companies in Johannesburg. STC is specifically focused to provide student transport to and from various universities in Johannesburg at highly affordable and competitive prices. The success of STC is mostly attributed to the 'state of the art facilities' available on their busses and bus stops across Johannesburg, such as high speed internet (Wi-Fi) at all bus stops and on all their busses. STC also makes optimal use of highly specialised Information Technology (IT) software to predict their sales, costs and various other variables that drive their sales (i.e. data analytics/big data) in providing excellent and efficient service.

Solly Dube studied BCom Accounting and is registered as a Professional Accountant with the South African Institute for Professional Accountants (SAIPA). STC's year-end is 31 December. Part of your job description is to assist Solly in various matters pertaining to establishing a sound ethical environment within STC, governance and control as well as preparing the audit file for the external auditors.

STC's Board of Directors are planning to grow the business aggressively and as such, are in the process to approve transactions to stimulate their five-year expansion and growth model. The growth model is mostly focused on hiring the correct staff with the necessary expertise in the transport industry, keeping their sophisticated IT systems and networks up to date to ensure efficient bookings and recording of revenue as well as expanding to other cities in South Africa. The model will still be focused on providing effective, affordable and competitive transport to university students.

GOVERNING STRUCTURE

The governing body of STC are as follows:

Name and Surname	Shareholding	Director	Description
Solly Dube	51%	Yes	Founder of STC and the Chief Executive Officer (CEO). The Governing Body elected Solly as the Chair of the Governing Body in 2015.
Mandla Dube	10%	Yes	The bother of Solly Dube. Mandla Dube is a data analyst and employed by Big Data (Pty) Ltd on a full-time basis. He serves as an independent non-executive director on STC's Board of Directors as he is not employed by STC nor is he involved in the day-to-day activities of the company.
Dirk Coetzee	-	Yes	Dirk is the Chief Operations Officer (COO) of STC.
Sandra Naidoo	-	Yes	Sandra has a bachelor's degree in Human Resources (HR) and is responsible for HR related matter of STC.
Garth Nkosi	-	Yes	Garth is Solly's farther in-law and a Chartered Accountant (SA). He holds the position as an independent and non-executive director because he is not involved in the day-to-day activities of STC. However, he provides advice to the Governing Body regarding strategic matters, on a regular basis.

EXTERNAL ASSURANCE PROVIDER

Dickson and Sitabule Auditors Inc. (hereafter DSA) are the registered auditors of STC. DSA has been providing this function since the incorporation of STC in 2012. Sally Dickson is an audit partner at DSA and an old university friend of Solly. Since 2012, she has been the audit partner in charge of the external audit of STC. Over the years DSA has been closely involved in the business of STC by providing advice to improve the business and profitability. DSA often

suggest improvements to the business and take ownership to ensure that these are implemented in order to add value to the business.

DETAILS REGARDING THE FUTURE GROWTH MODEL OF STC

During the year, the Board of Directors approved the purchase of YuppieTrans (Pty) Ltd (hereafter YuppieTrans) as part of the company's five-year strategic growth model. The purchase of the share capital in YuppieTrans was correctly approved by means of an ordinary resolution.

Since, the purchase of YuppieTrans, the demand for student transport has significantly increased. Therefore, STC identified the need to purchase five additional busses. Solly Dube is the sole owner of Magnificent Manufactures (Pty) Ltd (hereafter Magnificent Manufactures), a bus manufacturing company. Solly suggested to the Board of Directors that Magnificent Manufactures will provide the required busses to STC at a cost price of R 2 500 000 per bus (including VAT). Solly did not disclose to the Board of Directors that he owns Magnificent Manufactures.

One of the directors however indicated that another company, can provided the five busses at R 1 500 000 per bus (including VAT). Solly acknowledged that the offer of Magnificent Manufactures is above market value but persuaded the Board of Directors to purchase the busses from Magnificent Manufactures, as the R 2 500 000 purchase price (per bus) includes a six-year service plan at no additional cost.

At the Board of Directors meeting held on Friday 7 June 2019, Solly, Mandla, Dirk, Sandra and Garth casted their vote to purchase the five busses from Magnificent Manufactures at a total price of R 12 500 000 (including VAT). Solly concluded at the board meeting that STC is making the right decision to purchase the busses and that he will arrange for the contract regarding the purchase transaction be finalised. The Board of Directors authorised the payment to Magnificent Manufactures.

Important Note:

- Please answer Question 2 and its sub-sections in **one** answer book.
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QUESTION 2**27 MARKS****BACKGROUND**

UJ-Land (Pty) Ltd (hereafter UJ-Land) is an amusement park situated in Johannesburg. The company has been successfully operating and growing for ten months. The company has exciting attractions that includes amongst others a thriller ride area, an ice rink, a VIP lounge bar area, various restaurants and a go-kart racing track.

UJ-Land continues to provide revolutionized entertainment particularly for university students at affordable prices. Shortly after the grand opening, John Govender the Financial Manager implemented a credit system. The credit system allows students to enter UJ-Land on a credit basis.

Lerato Nkosi, the Financial Director previously came across unpaid invoices to Made-in-China Ltd (hereafter MIC). Lerato and John found that an employee accidentally deleted emails from the UJ-Land central email address and did not disclose it. After this occurrence, John is dedicated to improve the internal controls at UJ-Land and to make sure they are monitored and effective.

Some parts of the country experienced extreme weather conditions a week ago, ranging from severe thunderstorms to “veld fires” and heavy rains. This resulted in heavy floods affecting UJ-Land’s go-kart track and caused significant damaged to restaurants situated on the amusement park premises and significant losses of restaurant inventory goods.

Important Note:

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QUESTION 3**12 MARKS**

To enhance the Computer information system (CIS) of UJ-Land (Pty) Ltd (hereafter UJ-Land), John recently approved the budget requested by Daniel Dlamini, UJ-Land's IT manager. This entails the upgrade and update of UJ-Land's *Smartlink* system, a highly sophisticated self-developed system. The system was designed to accommodate the specific needs of UJ-Land that will now operate through a local area network (LAN). Any future upgrades and updates of the *Smartlink* system is the responsibility of IT-Co Ltd (hereafter IT-Co), an external company. This will ensure that all business cycles are enhanced, especially improving the computerized recording of transactions and timekeeping of employees. It will further incorporate controls to prevent unauthorized access via the internet.

The following updated timeline was implemented and used by the management of UJ-Land:

Sept 2018	Oct 2018	Dec 2018	April 2019	May 2019	June 2019
UJ-Land Founded	Construction began	1 st Financial Year end	UJ-Land Grand opening	Credit available to clients	Upgrade CIS system by IT- Co

Important Note:

- Please answer Question 4 and its sub-sections in **one** answer book.
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QUESTION 4**11 MARKS**

Before the grand opening of UJ-Land (Pty) Ltd (hereafter UJ-Land), one of the directors was concerned that the park might be overcrowded. However, this was luckily not the case. The expected number of guests did attend, although a second feasibility study was conducted to re-estimate costs and revenues.

The second feasibility study created the following report extract, addressing some risks facing UJ-Land:

REPORT EXTRACT: COMPANY INFORMATION TO IDENTIFY BUSINESS RISKS

The current accounting records remain the same and show that the capital invested in UJ-Land is estimated at R287 million. This is mainly funded by 95% long-term debt. UJ Land recently implemented a debt system allowing guests to enter the park on a credit basis.

However, it seems like the guests are not paying their debt. Additionally, it came under the financial director's attention that the affordable price of R30 per person will not generate enough revenue causing cash flow problems. The success of UJ-Land lead to another company planning to create a similar amusement park next to UJ-Land.

Extreme weather conditions damaged the go-kart track. However, it is still operating. The production manager is extremely frustrated as the electricity supply at UJ-Land is very intermittent. Uncommunicated electricity cuts have been a regular occurrence.

A Local Area Network (LAN) is used by UJ-Land, and comprises of a number of workstations, which share resources and are connected to a file server.



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REQUIRED

Important Note:

- Please answer each Question and its sub-sections in **one** answer book.
- Clearly indicate your **unique exam number** by writing it on the cover page of the answer book provided.

Important Note:

- Please answer Question 1 and its sub-sections in **one** answer book.
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QUESTION 1 – REQUIRED		Marks	
		Sub-total	Total
(a)	<p>With reference to the information provided under the heading “ownership and governance structure”:</p> <ul style="list-style-type: none"> • Discuss whether Solly Dube may fulfil the role as the Chairman of the Governing Body of Student Transport Company (Pty) Ltd, in terms of only the King IV report on Corporate Governance. <p><u>Please note:</u></p> <p>As part of your response, you need to include the overall function of a Chairman to assist the Governing Body in executing its responsibilities towards good governance.</p> <p><i>Professional skills – clarity of expression</i></p>	<p>5</p> <p>1</p>	<p>6</p>
(b)	<p>With reference to the information provided under the headings “ownership and governance structure” as well as the “details regarding the future growth module of STC”:</p> <ul style="list-style-type: none"> • Discuss whether the decision made to purchase the five busses from Magnificent Manufactures (Pty) Ltd, was in accordance with the requirements of <i>Section 75 of the Companies Act No.71 of 2008 – Director’s Personal Financial Interest</i>. <p><i>Professional skills – Logical argument</i></p>	<p>12</p> <p>1</p>	<p>13</p>

QUESTION 1 – REQUIRED (Continue...)		Marks	
		Sub-total	Total
(c)	<p>With reference to the information provided under the headings “ownership and governance structure” as well as the “details regarding the future growth module of STC”:</p> <ul style="list-style-type: none"> Discuss whether the way in which the decision was made to purchase the five busses from Magnificent Manufactures (Pty) Ltd (as evident from the most recent board meeting), will be regarded as a Reportable Irregularity in terms of Section 1 of the Auditing Profession Act No. 26 of 2005. <p><i>Professional skills – applying the theory to the discussion of whether the approval is a Reportable Irregularity</i></p>	16	
		1	17
(d)	List and define the fundamental principles applicable the South African Institute of Professional Accountant’s (SAIPA) Code of Conduct.	10	10
(e)	List the four stages that the external auditor will follow, when conducting the audit of Student Transport Company (Pty) Ltd for the year ended 31 December 2018.	4	4
Total for Question 1(a) – (e)			50

Important Note:

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QUESTION 2 – REQUIRED		Marks	
		Sub-total	Total
(a)	<p>Name the function that will assist the human resources team of UJ-Land (Pty) Ltd, to ensure that employees are remunerated only for the hours that they have worked.</p> <p>Important note: Your answer should include the documents used within this function.</p>	3	3
(b)	<p>Why would the payroll cycle be more at risk of fraud, when compared to the purchase and payment cycle?</p>	4	4
(c)	<p>Name and describe the function within the revenue and receipts cycle, which will assist UJ-Land (Pty) Ltd, to ensure that all customers that purchase on credit, will settle their outstanding debt.</p> <p>Important note: Your answer should include the risks used within this function.</p>	5	5
(d)	<p>List and briefly discuss the internal control objectives, that John Govender should consider before attempting to improve the control environment of UJ-Land (Pty) Ltd.</p>	10	10
(e)	<p>Identify the components to measure the effectiveness of internal controls. As part of your response, discuss how the monitoring of controls, will contribute to the measurement and effectiveness of internal controls implemented at UJ-Land (Pty) Ltd.</p>	5	5
Total for Question 2(a) – (e)			27

Important Note:

- Please answer Question 3 and its sub-sections in **one** answer book.
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QUESTION 3 – REQUIRED		Marks	
		Sub-total	Total
(a)	Briefly discuss , the controls you would recommend to the Financial Manager of UJ-Land (Pty) Ltd, to ensure that the <i>SmartLink</i> system is not subject to unauthorised access via the internet .	10	10
(b)	A Batch system is a system in which transaction data is accumulated until a large volume of data can be processed. List the advantages and disadvantages of a batch system.	2	2
Total for Question 3(a) – (b)			12

Important Note:

- Please answer Question 4 and its sub-sections in **one** answer book.
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QUESTION 4 – REQUIRED		Marks	
		Sub-total	Total
(a)	With reference to the information provided in the extract received from John Govender , identify the business risk indicators and explain the consequent business risks that UJ-Land (Pty) Ltd is exposed to. Please note: Present your response in tabular format.	11	11
Total for Question 4(a)			11
Total for Question 1 – 4			100