



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	16 July 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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1. During the **reading time** you may make notes on your question paper, but may not write in your answer booklet.
 3. 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.
 4. 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.
 5. All the examination regulations of UJ and the policy document for students of the Department of Accounting will apply during this assessment.
 6. Keep this paper for your record purposes.
 7. The neatness, disclosure and presentation of your answers will be taken into account when marking your paper.
 8. 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 focuses on providing 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. He is a 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, and governance and control to maximize shareholder wealth 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 focuses 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 focus 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 Board of Directors elected Solly as the Chair of the Board of Directors 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.
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. He provides advice to the Board of Directors regarding strategic matters on a regular basis.

The Board of Directors are currently not assisted by any established committees. However, in light of the expansion growth model of STC, the Board of Directors are considering to appoint an audit committee.

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.

Dirk Coetzee indicated that he identified instances where payments were made to bus drivers, without the necessary supporting documents. He therefore requested from Sally to review the applicable payroll controls and provide STC with a report on any deficiencies noted, as well as recommendations to improve the payment and authorisation of salaries.

With reference to the external audit, Sally calculated the materiality as R 550 000. An extract from the most recent financial statements of STC is as follows:

Description	Unaudited	Audited
	2018 '000 R	2017 '000 R
Turnover	10 000	8 000
Cost of Sales	(5 200)	(6 000)
Repairs and Maintenance	(390)	(250)
Advertising	(150)	(200)
Salaries and Wages	(1 500)	(1 000)
SARS liability	(125)	(80)

The audit team identified that the sales from transport tickets are overstated with R 1 000 000. Sally Dickson confirmed that the misstatement constitute a Reportable Irregularity. However, she will not report the matter.

Important Note:

- Please answer Question 2 and its sub-sections in **one** answer book.
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QUESTION 2**20 MARKS**

UJ-Land (Pty) Ltd (hereafter UJ-Land) is an amusement park that offers a revolutionized experience mainly for university students. The company's revenue and receipts cycle has appropriate number of staff and is divided into various functions.

John Govender, UJ-Land's financial manager requires your assistance concerning categorising the various control activities set out below into the functions as per the revenue and receipts cycle:

- John Govender prepares invoices on a daily basis for all sales made.
- A monthly age analysis of debtors is printed from the system and debtors are contacted by phone if they have exceeded their credit terms.
- Amy Black, the accountant, records the sales as per the revenue standard.
- The gate controller confirms each delivery by counting that the number of boxes on the delivery truck, and agreeing it to the number of boxes as per the delivery notes held by the driver.
- Bongani Ndlovu, inspects the detail on all the orders prepared by the six ordering clerks.

Important Note:

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QUESTION 3**18 MARKS**

Since incorporation, the business of UJ-Land has been very successful. The board of directors has therefore made the decision to open a second amusement park in Johannesburg.

The Board of Directors provided you with the following extract to identify business risks.

EXTRACT: TO IDENTIFY BUSINESS RISKS

UJ-Land will have to import rollercoasters for the expansion of their “thriller ride” from Made-In-China Ltd (hereafter MIC). MIC is situated in China.

The only available space for another amusement park is within a five-kilometre radius from Gold Reef City (another well-known amusement park in Johannesburg). In order to assist the Board of Directors to consider the feasibility of the new amusement park, you have to take into account the “UJ-Land” brand. Whilst doing your research, you discovered that the UJ-Land brand received negative attention on social media due to the following reasons:

- Guests have to wait in long queues for a long period of time to enjoy the rides.
- The guests’ also stated that not all the rides were working, as the rides are sometimes out of order due to an unreliable external maintenance company.
- Current and previous employees complained about their low wages (as it is lower than the prescribed minimums). This is a clear violation of the Labour Act and causing a high employee turnover.

The space considered for the new amusement park was recently affected by disastrous floods.

Important Note:

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

12 MARKS

John Govender recently approved the budget requested by Daniel Dlamini, UJ-Land's information technology (IT) manager, to upgrade and update UJ-Land's self-development system *Smartlink* to suit the needs of UJ-Land that will now be operated through a local area network (LAN). The new system will be designed and developed by an external company: IT-Co Ltd (hereafter IT-Co). Daniel is very concerned about the computer information system of UJ-Land and would like to secure it through improving business continuity controls.

Daniel is aware of your in-depth knowledge regarding business risks in the IT environment. Accordingly, he provided you with the following query:

Query 1:

It came to my attention that some parts of the country experienced extreme weather conditions recently, ranging from severe thunderstorms to veld fires and heavy rains. What control(s) can we implement to ensure that these natural disasters do not affect UJ-Land's computer information systems (CIS), ensuring business continuity?



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NUMBER OF PAGES OF REQUIRED (including cover page)	6
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REQUIRED

Important Note:

- The examination paper consists of **4** questions.
- 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.
- Clearly indicate your **unique exam number** by writing it on the cover page of the answer book provided.

QUESTION 1 – REQUIRED		Marks	
		Sub-total	Total
(a)	With reference to the information provided under the heading “governing structure” and only the Companies Act No. 71 of 2008 : <ul style="list-style-type: none"> • List the duties of the Audit Committee, should Student Transport Company (Pty) Ltd decide to establish an Audit Committee. 	12	12
(b)	With reference to the information provided under the heading “external assurance provider” : <ul style="list-style-type: none"> • Define the overall objectives that the auditor will follow when conducting the audit of Student Transport Company (Pty) Ltd. 	5	5
(c)	With reference to the information provided under the heading “external assurance provider” : <ul style="list-style-type: none"> • List the stages that the audit team will follow when conducting the external audit of Student Transport Company (Pty) Ltd. 	4	4
(d)	With reference to the information provided under the heading “external assurance provider” : <ul style="list-style-type: none"> • List the inherent limitations, that the audit team will have to consider when planning the audit of Student Transport Company (Pty) Ltd. 	6	6
(e)	With reference to the extract financial information, provided under the heading “external assurance provider” : <ul style="list-style-type: none"> • Briefly discuss the line items that the auditor should focus on, when conducting the audit of Student Transport Company (Pty) Ltd for the year-ended 31 December 2018. 	10	10

QUESTION 1 – REQUIRED (Continue...)		Marks	
		Sub-total	Total
(f)	<p>With reference to the extract financial information, provided under the heading “external assurance provider”:</p> <ul style="list-style-type: none"> • Briefly discuss the correct procedures that Sally Dickson should follow in order to report the Reportable Irregularity in terms of Section 45 of the Auditing Profession Act No. 26 of 2005. 	13	13
Total for Question 1(a) – (f)			50

Important Note:

- Please answer Question 2 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 2 – REQUIRED		Marks													
		Sub-total	Total												
(a)	<p>Indicate the function of the revenue and receipt cycle under which each of the control activities listed in the scenario is most likely to occur at UJ-Land Ltd.</p> <p>Provide the answers for 1 to 5. Your answer should be in the following format:</p> <table><tr><th>Number</th><th>Answer</th></tr><tr><td>1.</td><td></td></tr><tr><td>2</td><td></td></tr><tr><td>3</td><td></td></tr><tr><td>4</td><td></td></tr><tr><td>5</td><td></td></tr></table>	Number	Answer	1.		2		3		4		5		5	5
Number	Answer														
1.															
2															
3															
4															
5															
(b)	Briefly discuss the inherent limitations , which must be considered when designing internal controls for UJ-Land Ltd.	7	7												
(c)	With your knowledge on business cycles, why would the payroll cycle be more likely at risk of fraud than the purchase and payment cycle?	3	3												
(d)	List the risks inhered in the Investment and Finance Cycle .	5	5												
Total for Question 2(a) – (d)			20												

Important Note:

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QUESTION 3 – REQUIRED			Marks							
			Sub-total	Total						
(a)	<p>From the extract provided to you by the Board of Directors, identify business risk indicators and explain the consequent business risks that UJ-Land Ltd is exposed to.</p> <p>Please note:</p> <p>Your answer should include a ranking allocated to each business risk identified. The ranking must be allocated on a numeric scale (1; 2; 3; 4; 5), where 1 is the most likely business risk with the most significant impact, and 5 is the least likely.</p> <p>Please structure your answer in the tabular format as indicated below:</p> <table><tr><th>Risk Indicator</th><th>Risk Explained</th><th>Ranking</th></tr><tr><td> </td><td> </td><td> </td></tr></table>		Risk Indicator	Risk Explained	Ranking				16	16
Risk Indicator	Risk Explained	Ranking								
(b)	<p>With reference to your ranking of the business risks for UJ-Land Ltd in Part (a) above, briefly explain your considerations used to conclude on your number one ranked risk.</p>		2	2						
Total for Question 3(a) – (b)				18						

Important Note:

- Please answer Question 4 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 4 – REQUIRED		Marks	
		Sub-total	Total
(a)	Propose relevant controls to Daniel Dlamini, which should be implemented to protect and prevent UJ-Land ensuring business continuity in the event of any disasters occurring in the future.	8	8
(b)	Micro-computer systems are regularly used by various companies, provide the definition of a micro-computer system and list the advantages and the disadvantages of such a system.	4	4
Total for Question 4(a) – (b)			12
Total for Question 2 – 4			50
Total for Question 1 – 4			100