



FACULTY/COLLEGE	College of Business and Economics
SCHOOL	School of Economics
DEPARTMENT	Accountancy
CAMPUS(ES)	APK
MODULE NAME	Governance and Citizenship
MODULE CODE	GOV2AB0
SEMESTER	First
ASSESSMENT OPPORTUNITY, MONTH AND YEAR	Final Assessment Opportunity June 2019

ASSESSMENT DATE	7 June 2019	SESSION	1 (08:30)
ASSESSOR(S)	Mrs C hohls-Du Preez and Ms M Marchbank		
MODERATOR(S)	Mrs P Rama and Ms K Dempsey		
DURATION	187,5 Minutes	TOTAL MARKS	125

NUMBER OF PAGES OF SCENARIO (Including cover page)	10
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INFORMATION/INSTRUCTIONS:

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- This is a closed-book assessment.
 - There are 2 questions. **EACH question MUST be answered.**
 - Answer ALL questions in the same book. Take note of the colour of your book.
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|----------------------------------|--------------------|
| Question 1 and Question 2 | YELLOW BOOK |
|----------------------------------|--------------------|
- Read the questions carefully and answer only what is required.
 - Number your answers clearly and correctly as per the question paper.
 - Write neatly and legibly on both sides of the paper in the answer book, starting on the first page.
 - **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.**
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QUESTION 1

10 MARKS

This question comprises of multiple choice questions (MCQ). You must read the information given and then under the required, select the correct option. There are 5 MCQs. Each must be answered.

The answers to the MCQ will be given on the REQUIRED SHEET.

1. There are two types of ethics management systems namely Proactive and Reactive management systems. Which of the following does NOT relate to the Reactive management system?

2 marks

2. The POPI Act serves to provide guidance on how to protect personal information. Included in the act is the definition of a Data Subject. Which of the following definitions define Data Subject?

2 marks

3. The underpinning philosophies of King IV comprises of:

2 marks

4. According to the Companies Act 71 of 2008, the notice of shareholder's meeting must be given at least:

2 marks

5. One of the examples below, is not a classical example of dispelling myths:

2 marks

5 x 2 marks = 10 marks

QUESTION 2

111 MARKS

2019 has proven to be a very trying time for South Africa. The national power provider, Eskom, started implementing loadshedding from February 2019. Initially the loadshedding was manageable, but during March 2019 the loadshedding got significantly worse as the power provider implemented Stage 4 loadshedding. This meant that certain areas would be without power for a duration of at least four and a half hours at a time. As though things were not bad enough, NERSA (National Energy Regulator of South Africa) recently approved yet another increase for Eskom.

Eskom has approached NERSA for an increase of approximately 17% in its electricity tariffs for the 2019/2020 financial year as they are of the opinion that all costs relating to the supply of electricity have increased significantly over the past 12 months and the increase is necessary to keep the country's lights on. According to Eskom the increase is necessary to ensure that all staff members can be paid a decent salary. The additional income generated from the increase in tariffs will assist in covering the increased operating expenses and will assist in doing much needed maintenance work at most of the power stations. Medupi and Kusile can finally be completed which will in turn relieve some pressure over the national grid. Eskom will be in a position to enter into a long term coal supply contract which again which will reduce the risk of running out of coal at the coal driven power stations. Loadshedding will be something of the past.

Loadshedding has had a big impact on every citizen's life, not only individual households but also businesses, especially small and medium organisations who cannot afford to invest in generators. Retail organisations have been affected more than service organisations as the retailers (small and medium) cannot trade during load shedding and as a result have lost a large portion of revenue. If revenue continues to decrease, businesses will be forced to retrench staff members, which will increase unemployment rate again.

The increase requested is more than inflation and the amount the end user will pay at the end will even be higher as the municipality's percentage must still be added to the approved increase. The increase that will be pushed onto the end user will be higher than the 9,4% approved by NERSA. This is due to the fact that part of an increase which was approved three years ago for the 2019/2020 financial year is added to the one approved in 2019. Salaries do not increase with the same percentage, food is getting more and more expensive every month and petrol will be significantly more expensive from April 2019 due to the additional levies that the Minister of Finance has implemented following his budget speech he delivered in February 2019. The weakening of the rand is also causing the petrol price to increase. Loadshedding in 2019 is much worse than the loadshedding that has been implemented in 2008. The power stations are not being maintained by Eskom. Households have to throw away food that became stale, due to the long periods the fridges / freezers are without power. When the power is being restored back after a loadshedding session, a larger power surge, typically larger than normal, is sent through the cables which leads to the damaging of appliances.

One of the service companies that has been affected by loadshedding is Zonda & Associates. Zonda & Associates is an accounting firm which is owned by Tunios Zonda CA(SA). Loadshedding has forced Tunios to adjust the way in which he would normally do business. When Eskom implements stage four loadshedding from 12:00 – 16:30 it normally affects most of his smaller clients as they do not have generators.

Besides having to adjust the times he see clients, Tunios also had to find alternative ways to advertise as the constant loadshedding is affecting social media and other internet sources of advertising. He resorted to distributing the following flyer at the big intersections close to his office.

TUNIOS ZONDA & ASSOCIATES
Ethics & Accounting / Ukuziphatha Nokuphendula

Services include:

- Ethics training and advice
- Accounting services
- Legal Advice
- Taxation Services
- Management of reporting hotlines
- Corporate Governance

Contact:
Tunios Zonda
072 439 4309
Tunios@Zondaandassociate.co.za



A few days after the flyers had been distributed at various intersections Tunios began to receive numerous phone calls from clients wanting him to quote for certain services. Over the past three weeks, Tunios accepted eight new clients and he appointed three additional staff members to assist with the increased workload.

See below for a summary of the matters that each of the companies need assistance with:

Gauteng Health Department

Three years ago Tunios applied to be an approved service provider for the Auditor General of South Africa (AGSA); this will be his first appointment reporting his findings to the AGSA. Tunios has been given the audit of the Gauteng Health Department – Oncology Unit at the XaXa Hospital in Vereeniging. After completing the planning, Tunios and one of his staff members, Jacob, who recently qualified as a CA (SA), conducted the audit and are almost done with the audit. So far, no material matters has come to the forefront. Tunios and Jacob were auditing the purchases and accounts payable section and identified the following:

- Only 1/50 of the suppliers that were used were actually approved suppliers;
- 10/50 suppliers were found to be linked to the Head of the Oncology Unit and
- For a sample of invoices that was selected per supplier, it was discovered that the highest quote was selected and approved by the Head of the Oncology Unit.

Tunios reported his findings to the AGSA and there is now a formal investigation into the dealings of the Head of the Oncology Unit, who has been suspended, with pay, until the investigation has been finalised.

Acutes Property Management Group (Pty) Ltd

Acutes Property Management Group (Pty) Ltd (Acutes), is an estate agency which is responsible for managing properties and has a September year end. The owner and managing director of the company, Jono Acutes, just received a request from one of Tunios' staff members, Lita Louw, to please send the statement of comprehensive income for the period 1 Oct 2018 to 31 March 2019 so that the tax department can complete the provisional tax computation for the first provisional tax period. Mia Buzz (Jono's accountant) sent Lita the following schedule:

Profit before taxation for the period 1 Oct 2018 to 31 March 2019	125,253,896.00
Adjustment: General Journal entry 242	(135,000,000.00)
Loss therefore no taxation	(5,253,896.00)

Lita called Jono to ask what General Journal 242 was all about and he was unavailable so the personal assistant of Jono put you through to Mia Buzz, the accountant. The following conversation was had:

Lita: *"Hi Mia, I hope you are well! I just need some clarification on the statement of comprehensive income schedule that was sent; earlier in the day when I chatted to Jono, he did not mention anything about an adjustment that was required, do you know anything about this general journal?"*

Mia: *"I am well Lita, I hope you are too. Just give me a second to close my office door... To answer your question, after you called Jono this morning, he came into my office and insisted that I pass the entry and call it income received in advance as he is tired of paying tax and sees no benefit in paying tax since the government squanders our money. It is not like we the ONLY company that is doing this, all companies and South African's feel the same way, ask any of them. He also warned me not to say anything about this, or my job will be on the line and he will deny it."*

Dr Richter

Keith Richter is a well-known and respected anaesthesiologist working primarily from the Life First Hospital in Sandton. Keith has his own practice and only employs one other person, his wife. He focus is in assisting in operations that are longer than one to two hours. Most of the time, his wife will be the admitting nurse for all of his patients. His wife is also the person responsible for sending out accounts and claims to medical aids.

His sister in law has recently lost her job and the bills are starting to pile up for her. She is a single mother and has asked for Keith's help to keep the bank from repossessing her car.

Keith has always been a 'play by the rules' type of guy and was always level headed. He feels very sympathetic towards his sister in law's situation. Since Keith and his wife are unable to have children of their own, he treats his sister in law's children as his own and not just as his god-children.

As there are only two people working in Keith's practice, he decided to use his practice in an attempt to assist his sister in law with raising her children. Keith and his wife decided that after each operation, they will increase the number of items that has been used during theatre on a patient when they submit a claim to the medical aids. As operations and hospital stays are covered from hospital plans, the patients will not know that additional items have been included in the claim as no one really checks the hospital claims.

Keith asked Tucker, his brother who is also a medical doctor, a surgeon, to assist him with his decision to help his god-children. Tucker himself, normally operates once a week and typically patients need to get pre-approval for these operations as well (just like Keith's patients do). In order to get pre-approval, the patients provide the medical aid with the procedure codes and ICD 10 (operation codes) codes required for the operation. Tucker has agreed to help Keith. Tucker will then give some of the patient's "one or two additional procedure and ICD10 codes" to include in the authorisation from the medical aid, but he did not actually perform these procedures on the patients. The payment of these "additional ICD10 and procedure codes" will then be transferred to Keith's bank account as soon as it is received and Tucker will keep the part of the claim that relates to the procedure and ICD10 codes actually performed on the patients.

Zooty Frooty Limited

Zooty Frooty Limited (hereafter Zoot) is a company that manufactures children candy. Zoot's financial year end is 28 February 2019. You have been provided with the following information to assess the corporate governance structures of the company:

- *Responsible corporate citizenship*

Members of the governing body will oversee only the organisation's core purpose and value while strategy and conduct will be handled by the audit committee.

- *Primary role and responsibilities of the governing body*

The governing body (GB) should only approve its role, responsibilities, membership requirements and procedural conduct once the chairman has written and approved the documents which are enlisted in the charter.

- *Composition of the governing body*

NAME OF MEMBER	TITLE, BACKGROUND AND QUALIFICATIONS
Jelly Bean	Chairman and CFO. Executive-director. Chairman of the Audit committee. She has never ever been in a managerial role before.
Jelly Tots	Financial director. Non-executive director. CA(SA) (qualified with SAICA in 2001 and has never done any CPD). Jelly is the daughter of Jelly Bean.
Sour Teddies	Independent non-executive director. Has a degree in Sports Management only and no managerial experience
Mallow Gums	Member of the governing body Non-executive director. Serves on 25 other governing bodies.

- *Composition of audit committee*

NAME OF MEMBER	TITLE, BACKGROUND AND QUALIFICATIONS
Jelly Bean	Chairman, Executive-director Has no prior experience with any audit functions.
Jube Jube	Executive-director Has no qualifications relating to internal audit or any audit.

Other information

The chairman is the only person who is:

- allowed to perform evaluations of the board and these are done every four years;
- responsible for deciding on the remuneration of every member in the governing body and audit committee;
- appoints new members to the governing body and or other committees;
- does not believe in diversity or male or female spreads in committees and
- she does not believe there is a need for any other committee as all a company really needs is the governing body and the audit committee.

Crystal Clear Travel

Crystal Clear Travel (Hereafter CCT) have contacted you to assist in establishing an ethical culture in their organisation. In the beginning of the current financial year, they have bought a smaller travel agency and over the past few months management started noticing behaviour that they don't feel comfortable with. One of the managers started writing an ethical code, but wanted your advice on whether he is on the right track. The code is provided below.

CCT Ethical code

1. Accuracy. CCT members will be factual and accurate when providing information about their services and the services of any firm they represent. They will not use deceptive practices.

2. Disclosure. CCT members will provide in writing, upon written request, complete details about the cost, restrictions, and other terms and conditions, of any travel service sold, including cancellation and service fee policies. Full details of the time, place, duration, and nature of any sales or promotional presentation the consumer will be required to attend in connection with his/her travel arrangements shall be disclosed in writing before any payment is accepted.

3. Responsiveness. CCT members will promptly respond substantively to their clients' complaints.

4. Refunds. CCT members will remit any undisputed funds under their control within the specified time limit. Reasons for delay in providing funds will be given to the claimant promptly.

5. Cooperation. CCT members will cooperate with any inquiry conducted by CCT to resolve any dispute involving consumers.

6. Confidentiality. CCT members will treat every client transaction confidentially and not disclose any information without permission of the client, unless required by law.

7. Affiliation. CCT members will not falsely represent a person's affiliation with their firm.

8. Conflict of Interest. CCT members will not allow any preferred relationship with a supplier to interfere with the interests of their clients.

9. Compliance. CCT members shall not have been convicted of a violation of any federal, state and local laws and regulations affecting consumers. Consent judgments, judicial or administrative decrees, or orders, and assurances of voluntary compliance and similar agreements with federal or state authorities shall be deemed convictions for purposes of these provisions.

Management thought it important for you to know that they have never had any problems in the past that they were aware of and therefore never gave much thought to institutionalising ethics. They are trying to create an ethical culture, but do not know whether they are on the right path or successful.

In order to provide CCT with the best service, you decided to perform a quantitative data gathering to get a feel for the ethical culture that is currently present in CCT. A summary of the results has been provided below:

On a scale of 1 – 6, where 1 indicates total disagreement and 6 total agreement, please indicate the extent to which...							
1.	You consciously think about ethics and ethical consequences when performing your job.	1	2	3	4	5	6
2.	You feel equipped to deal with ethical issues.	1	2	3	4	5	6
3.	There is a general awareness of ethics in the organisation	1	2	3	4	5	6
4.	The CEO is committed to ethics	1	2	3	4	5	6
5.	Managers are committed to ethics	1	2	3	4	5	6
6.	Ethical behaviour is encouraged.	1	2	3	4	5	6
7.	The climate in the organisation makes it easy to make ethical decisions	1	2	3	4	5	6
8.	Opportunities for unethical behaviour exist	1	2	3	4	5	6

Sensor (Pty) Ltd

Sensor (Pty) Ltd is a manufacturer of liquid gel writing pens. The financial year end is 28 February 2019. The company is proudly South African and boasts that a large amount of their profits are spent being redirected to uplift impoverished communities. For these contributions that are made, Sensor (Pty) Ltd has received excessive SARS deductions against their taxable income. The company is owner managed and James Tensor is a shareholder and a director of the company. Their current accountants have informed James that Sensor (Pty) Ltd must be audited and James disagrees as he indicates that the Memorandum of Incorporation (MOI) of the company does not require an audit. James Tensor also said that if an auditor asks him for any information he will simply say they cannot have any access to anything. You are provided with the following information:

- The annual financial statements are prepared internally by James. In prior periods, the annual financial statements were prepared by AFS Consulting CC.

- An extract of the payroll was received:

Number of employees as at 1 March 2018	1,256
Number of employees as at 28 February 2019	1,569*

** At the time this report was printed, 500 employees that started working 1 February 2019 were accidentally left off the closing balance of employees.*

- An extract from the final trial balance as at 28 February 2019 reflected the following:

Turnover	1 256 456 962
Issued Share Capital	150 000 000
Non-current liabilities	852 693 125

One of Tunios's staff members received an anonymous email:

From: Anonymous

Sent: Monday, April 1, 2019 5:02 PM

To: Sahra <sahra@Zondaandassociate.co.za>

Subject: Contributions to communities

Dear Sahra,

If I were you, I would look into the "communities" that the "profits" of the company are being paid to. You might find that these are not real communities and you may even find that these payments are linked to James.

Data Analytics (Pty) Ltd

Kiara, an employee of Zondo and Associates, has been approached by William from Data Analytics (Pty) Ltd (Hereafter DA) to complete a market research questionnaire to obtain an understanding of how people will react to surveillance camera's being put up in their immediate surroundings in an attempt to reduce crime. Before starting with the questionnaire, William

explained the purpose of the questionnaire in detail and Kiara agreed to partake in the questionnaire.

After answering the questions from William, Kiara noticed that he wrote down her home telephone number incorrectly. Although she tried to correct it, he did not give her the opportunity to do so.

A week later Kiara was contacted by a tele-marketing company on her cell phone who said that they received her telephone number from DA. At that moment Kiara realised that William never asked her whether she would like to be part of tele-marketing.

Regent SA Ltd

During the previous day's board meeting a decision was taken that the merger of the company needs to be announced within the next day or so. The merger will show the company in a good light and will definitely improve the company's share price, so much so, that it will almost be as though the company listed for the first time. One of the board members decided that he cannot let this opportunity pass and that he has to act fast. He bought 1,000 shares of the company stock in his mother's name without informing anyone.

One week after the announcement was made, the shares did improve in value.