



FACULTY/COLLEGE	College of Business and Economics
SCHOOL	School of Accountancy
DEPARTMENT	Accountancy
CAMPUS(ES)	APK
MODULE NAME	Governance and Control Auditing
MODULE CODE	GAC3AB0, GOC3AB0, S3PACQ2, ADIA003, ODT3B01
SEMESTER	Second
ASSESSMENT OPPORTUNITY, MONTH AND YEAR	Final Assessment opportunity November 2019

ASSESSMENT DATE	13 November 2019	SESSION	08:30 – 11:30
ASSESSOR(S)	Mrs Rozanne Smith, Mrs Belinda Schutte and Mr Stephen Shiburi		
MODERATOR(S)	Prof Ben Marx and Mr Riyad Moosa (Internal Assessors) Nastassia Strydom (External moderator)		
DURATION	3 Hours [15 minutes reading time and 165 minutes writing time]	TOTAL MARKS	120 marks

NUMBER OF PAGES OF QUESTION PAPER (Including cover page)	1 – 6 (Scenario)
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INFORMATION/INSTRUCTIONS:

- This is a closed-book assessment.
- This paper consists of 6 pages.
- There are 4 questions.
- You have 15 minutes reading time. During this time you are allowed to read and make notes on the question paper (scenario). You are not allowed to write anything on your answering sheet. You will only receive the required section of the paper once the reading time is finished.
- Answer each question on a separate page.
- Delete all open pages on your answer sheet with a 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 those pages will not be eligible for a remark.
- 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.
- All the examination regulations of UJ and the policy document for students of the Department of Accountancy will apply before, during and after this test.

QUESTION 1

[45 MARKS]

<p>Free State News Local Municipality – the country’s most wasteful spender! 25 August 2019 11:09 Written by Nelda Maia</p>
<p>A local municipality in the Free State leads the pack of the country’s most wasteful municipal spenders.</p> <p>The Free State municipality is first of the top 10 contributors to fruitless and wasteful expenditure, with the collective wasting of R818 million in the past three years, the Auditor-General said this week.</p> <p>Overall, fruitless and wasteful expenditure in 2018/19 amounted to R1.5 billion – an increase of 71% from R890 million in the previous financial year. In the past three years, this municipality wasted R187 million, most of it (R182 million) spent on interest on debts to Eskom. The rest related to penalties and interest owed to the SA Revenue Service and other creditors.</p> <p>The municipality is also currently in a legal battle with one of its suppliers, WaterWorx (Pty) Ltd, over the cancellation of its contract a year ago. WaterWorx’s owner, James Matlala, alleges that the contract was illegally cancelled because of political pressures. His brother (the CEO of this specific municipality) appointed him as the service provider. He had already invested a lot of money into this contract, and says that they cannot simply cancel the contract.</p> <p>A resident who asked not to be named said her municipality was “as good as closed” because of a lack of services. She stated: “Finances are gone, governance is non-existent and sewage is running down the streets of Koppies, negatively affecting numerous communities. It’s actually one of the worst municipalities in this country.” she said.</p> <p>The auditor general also confirmed that no risk management plans or policies were developed or implemented.</p> <p>The local municipality’s CEO denied the claims, and declined to comment.</p> <p>https://www.news24.com/SouthAfrica/News/welkom-is-sas-most-wasteful-municipal-spender-r818m-over-the-last-3-years-20180527. Adapted for academic purposes.</p>

QUESTION 2**[15 MARKS]**

Maboneng CC, is the second largest supermarket chain store in South Africa, established in 1967. It can also be found in other regions of Southern Africa, such as Botswana, Zambia, Zimbabwe, Lesotho, Namibia, Swaziland, and had plans to open in Malawi but has yet to do so. It currently has eight members, all of whom hold an equal number of interest in Maboneng. Below, are the particulars (notice of the meeting (**Annexure A**) and minutes of the meeting (**Annexure B**) of the recent urgent meeting held by the members of Maboneng CC.

ANNEXURE A

TO: MABONENG CC MEMBERS	
<u>Notice of an Urgent Meeting</u>	
Date: Saturday 12 November 2019	
01 November 2019	
Dear Member of Maboneng CC.	
An urgent meeting of Maboneng CC, is to be held on THE 12th OF NOVEMBER 2019 AT THE POLICE CITIZEN YOUTH CENTRE, JOHANNESBURG.	
It is important that a quorum is met for this meeting in order for the resolutions to be valid. 25% of the members have to be present for resolutions to be valid.	
A number of issues will be discussed at this meeting.	
If you have any questions, please contact me on 0800 123 456.	
I look forward to seeing you.	
Yours sincerely	
Alfred Muneer	

ANNEXURE B

Extract from the minutes of the urgent meeting held on the 12th of November 2019.		
<i>Present</i>	<i>Other attendees</i>	<i>Apologies</i>
Alfred Muneer Harriet Khoza Ahmad Kumar Quinton Nyathi Lucy Steyn Emma le Roux	None	Gracious Mabuza Billy Thornton
1. Closure of agenda		
The agenda was accepted without any additions.		
2. Declaration of interest		
No interests were declared.		

3. Approval of the minutes of the previous meeting

This was an urgent meeting and as a result, the minutes of the previous meeting was not considered.

4. Approval of the financial assistance to Mr. Alfred Muneer.

Mr. Muneer informed all the members present that there was a business opportunity for him in Limpopo. One of the leading super markets, Choppy Ltd, was closing all their stores in the Phalaborwa region. He saw this as an excellent business opportunity. However, he did not have the necessary capital to invest into this business opportunity. He requested that Maboneng finance the deal on his behalf. Maboneng has three stores in the area.

The proposed terms and condition for this deal are as follows:

- Maboneng will build five stores for Mr. Muneer in Phalaborwa,
- The loan will only be repaid once his stores become profitable,
- Maboneng will provide security for the bank loan, taken out by Muneer to pay for startup costs,
- No interest will be levied on the loan since Mr. Muneer is a loyal member of Maboneng.

All members of the board approved this decision.

QUESTION 3

[15 MARKS]

Matlala Advisory Services Inc. (hereafter MAS) is an auditing firm founded by siblings, Thabiso and Lerato Matlala in 2015. Both of them graduated from the University of Gauteng, with a diploma in logistics and B Com Accounting Degree respectively. After losing one of their biggest clients, they needed financial assistance and their uncle, Jerry Khumalo, a Chief Executive Officer (CEO) of Siabuswa Government Projects (SGP), provided the much-needed financial assistance to them to continue being a service provider.

The (MAS) website states the following:

“we offer, auditing, taxation, management consulting, advisory, actuarial, corporate finance and legal services. We have handled the vast majority of contracts both in the public and private sector. We have been around for more than 10 years and we are the best at what we do.”

MAS was recently awarded the tender to provide audit related services to SGP. Before accepting the contract, MAS, disclosed to Jerry *the* “potential conflict of interest” that might exist given their relationship. It was agreed that the “potential conflict of interest” will be managed, and that the appointment should proceed.

The following came to Lerato’s attention while performing the audit at SGP:

1. MAS outsources all the audit services it provides to SGP without the knowledge of SGP.
2. MAS was recently fined R400 000, for tax evasion.

QUESTION 4**[45 MARKS]**

Communication For All SOC Ltd (hereafter CFA) is a South African wireline and wireless telecommunications provider. CFA recently had their annual general meeting (hereafter AGM) and the following matters were discussed at the AGM.

Communication For All SOC Ltd Annual General Meeting 13 November 2019 Sandton Office Park	
<u>Minutes of the meeting</u>	
<ol style="list-style-type: none"> 1. The appointment of a company secretary will only be done once there is a need for a company secretary. 2. CFA is still in the process of appointing an audit committee and will only do so once the need for the audit committee is truly necessary. 3. The Chief Executive Officer (hereafter CEO) informed everyone that CFA granted shares to one of their subsidiaries One Chat (Pty) Ltd. These shares will have voting rights linked to them and will ensure that subsidiaries of CFA hold 35% of their shareholding. 4. The board of directors appointed internal auditors to perform internal audit services. Please refer to annexure A for a detailed description of the internal audit services provided. 	
After the matters were discussed, the meeting was adjourned.	

Annexure A

Internal Audit Services provided to Communications For All SOC Ltd
<p>The internal auditor's first assignment was to evaluate CFA's compliance with the Companies Act.</p> <p>The internal auditors are also required to do an independent assessment of CFA's governance processes in order to determine if unethical behaviour has taken place. The Chief Audit Executive (hereafter CAE) explained the process they are going to follow:</p> <ul style="list-style-type: none"> • A risk based plan will be developed for this assignment after obtaining only an understanding of the risks and risk management processes; • During the planning of the engagement the internal auditors will consider the strategies and objectives of CFA; • The engagement plan will be developed and documented based on the judgement of the CAE. The engagement plan will include the objectives of the engagement after considering only the objectives of CFA; • A work program will not be developed as an engagement plan has been established; • A senior internal auditor will be responsible to supervise the engagement; and • The final communication of the results of the internal audit service will include the opinions and conclusions of the internal audit team only and will not consider the expectations of CFA.



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Required section for Final Assessment in November.

Question 1

You are required to (based on the information from the article):

- a) Identify concerns regarding municipality's application of the recommended practices contained in the King IV Report. For each concern explain how they can improve their recommended practice to adhere to King IV. (18)

Your answer should be in table format as follows:

Concerns regarding practices	Recommendations regarding practices
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- b) Identify the contraventions in terms of the Public Finance Management Act (PFMA), and for each contravention, provide a recommendation in terms of the PFMA. (23)
You are required to discuss the procedures to be followed in the case of financial misconduct.

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

Precision and interpretation marks (4)

Question 2

You are required to:

Discuss the contraventions of the Closed Corporation Act 69 of 1984 that are evident from the above scenario. You must include specific guidance from relevant sections of the Closed Corporation Act 69 of 1984. (15)

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

Question 3

You are required to:

Assess the relationship between SGP and MAS, and then identify the Fundamental principles of the IESBA code that are not being adhered to, and explain the non-compliance in detail. (15)

Your answer should be in table format as follows:

Fundamental Principles	Description of the non- compliance
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Question 4

You are required to:

- a) 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. (15)

You are **NOT** required to discuss the standards of director's conduct or the liability of directors.

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

- b) Identify and discuss the type of audit that the internal auditors will perform for CFA. (4)
- c) Identify and discuss the type of internal audit service that you will be providing to CFA. (5)
- d) 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 CFA. (20)

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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Presentation mark (format) marks (1)