



UNIVERSITY
OF
JOHANNESBURG

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	Supplementary Assessment opportunity January 2020

ASSESSMENT DATE	January 2020	SESSION	TBC
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 – 9 (Scenario)
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INFORMATION/INSTRUCTIONS:

- This is a closed-book assessment.
- This paper consists of 12 pages.
- There are 6 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**(23 MARKS)**

You work as a consultant for an internal auditing firm named Consultants Are Us Inc. You provide consulting services to various clients regarding their organisation's operations, internal controls and compliance with various Acts and governance principles that they have to adhere to. One of your clients, Sport Supplies Ltd (hereafter SS) provided you with the following information.

SS recently decided to develop and implement a new computerised information technology (hereafter IT) system. The audit committee of SS has have a widespread knowledge of the company and IT systems, as a result, they were asked to assist the Governing Body (hereafter GB) with the implementation of controls. The audit committee informed the GB that they had to implement proper IT governance principles according to King IV. However, the GB informed them that the governance of IT was not that important for them at this point therefore; the oversight of IT will be delegated to the management team. The management team only has two objectives in this regard, the ethical and responsible use of IT resources, and compliance with relevant laws.

The GB of SS is constituted correctly according to the terms of the Code of Corporate Governance for South Africa (King IV). They have also appointed only the following board committees:

Audit Committee	The audit committee met once, on their own, during the 2018 financial year. The committee consists of 8 members, and is a mix of executive and non-executive directors, it chaired by the CEO of SS.
Remuneration Committee	<p>The remuneration committee met three times during the 2018 financial year. The committee consists mainly of executive directors.</p> <p>The remuneration committee decided to approve the remuneration policy during their second meeting however, they were not certain of the elements of remuneration that must be set out in the remuneration policy.</p>
Risk Committee	The risk committee consists of two members; one being a senior manager and the other an executive director. The risk committee met once during the 2018 financial year.
Social and Ethics Committee	The social and ethics committee met twice during the 2018 financial year, and consists of mainly independent non-executive directors.

QUESTION 2

(12 MARKS)

Your accounting and advisory firm, Mohalane Services Inc., (hereafter MS) was recently awarded the opportunity to provide accounting services to Bake-A-Cake (Pty) Ltd, (hereafter BAC) after the owner of BAC saw your advertisement in the local newspaper. (See Appendix A for a copy of the advertisement).

Books for You Incorporated (hereafter BFY) is currently the accounting firm providing accounting services to BAC. You requested that BFY should not be informed of your appointment; because that would give them time to hide any information should they have anything to hide. You scheduled a meeting with BFY to discuss your proposed appointment.

<p style="text-align: center;">Meeting with Bake a Cake (Pty) Ltd 23 July 2018 08:00</p>
<p>Attendees:</p> <ul style="list-style-type: none">• Books for You Incorporated (BFY),• You, on behalf of Mohalane Services Inc (MS),• Chris Schutte (Financial manager) of BAC <p>MS explained to BFY that they were being replaced, and that they were no longer going to be providing accounting services to BAC.</p> <p>MS requested some information from BFY, but this discussion was cut short when Chris requested BFY not to discuss any information with MS. He said that BFY was probably going to provide false and misleading information as they were upset that they were being replaced.</p> <p>The meeting was adjourned.</p>

One week after your meeting with BAC you received a phone call from Chris apologising for what happened at the meeting and requesting that you communicate with BFY. You were pleasantly surprised and decided to accept the engagement without even informing BFY.

Appendix A

Mohalane Services Inc

Accounting and Advisory Services



Better than the rest!!

We offer the best tax, auditing and accounting services; no other company will provide better services than Mohalane Services Inc. Other companies struggle to walk where we flourish! We have the power to change your company!

"MS is simply the BEST in practice!!!" (Mark Fish, famous soccer player)

Contact us on 0860 BESTMS

QUESTION 3**(26 MARKS)**

You were recently appointed as the internal auditor for a new domestic airline company called, Jet Eagle Airlines Limited (hereafter JEA). JEA was formed by a group of friends who saw the need in South Africa for a more cost effective and reliable airline. The company has been operating for a year now, and through excellent management, affordable tariffs and excellent services they have grown steadily.

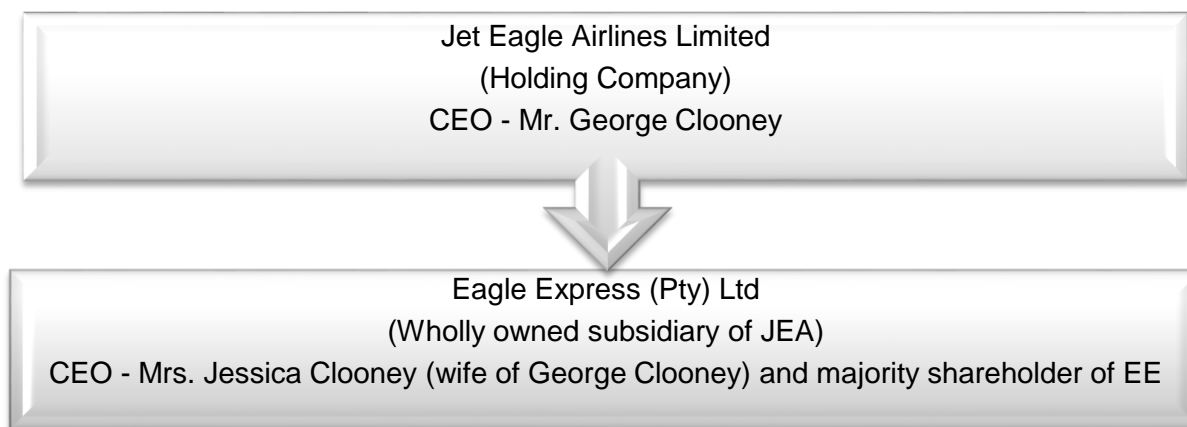
You were approached by the chairman of the audit committee, Mr. Santana, for advice on the company's current operations. He provided you with the audit file that contained audit working papers. During your review of the audit file, you came across the following notes made by the trainee accountant, Mrs. Morepe Motloun.

Entity Name:	Jet Eagle Airlines Limited	Year end:	30 September 2017	A2/1
Prepared By:	Mrs. Morepe Motloun (Trainee Accountant)	Date:	14 November 2017	
Reviewed By:				
Subject:	Matters identified whilst gathering audit evidence			

Review of Minutes of Board Meetings held during the current year:

JEA has been struggling to keep up with the increasing demand of customers using their airline therefore, they decided to expand their business by buying another airline company called, Eagle Express (Pty) Ltd (hereafter EE). The board of directors (hereafter BOD) decided to buy EE in June 2017. All the directors voted in favor of this decision.

The new company structure will be as follows:



Mrs. Motloun noted that the CEO and majority shareholder of JEA, Mr. George Clooney stated that this is an excellent business opportunity as EE has been in the industry for almost 20 years.

The CEO, Mr. George Clooney made the executive decision that they are going to issue a

dividend to the shareholders at the end of the year as a result of the company performing well financially. They are considering a dividend of approximately R 1 per share.

Matters to be discussed at the next meeting:

- Appointment of a company secretary, as they currently do not have one.

QUESTION 4

(15 MARKS)

Necessity Health and Skin CC (hereafter NHS) is a close corporation that operates in the beauty industry. They provide a wide range of beauty treatments such as nail care, facials and professional make-up. NHS has five members all of whom have approximately the same members' interest. Portia Mahlangu the managing member of NHS has become aware of the amendments made to the CC act, in light of the changes to the Companies Act 71 of 2008. She remembered that you are in the final year of your B.Com Accounting degree. Therefore, she asked you to attend a meeting in order to answer some of the questions that the members have in terms of the CC Act. The following questions were put to you during the meeting:

1. Portia Mahlangu asked you whether it is now compulsory for all CC's to convert to a company and whether new CC's can still be registered.
2. Natasha Winter asked what the procedures would be to convert a CC to a company.
3. Olivia Nakedi asked whether they will be able to appoint more members, should they decide to continue as a CC.
4. Faith Madiba asked whether they still need to appoint an accounting officer if they continue to trade as a CC and who will qualify as an accounting officer.

QUESTION 5

(21 MARKS)

Dried Fruit (Pty) Ltd (hereafter DF) is a large manufacturer and wholesaler of a wide range of snacks, dried fruit products e.g. dried fruit rolls, nuts etc. The company has a number of divisions e.g. sorting, drying, packing, quality control etc. Internal audit activities are scheduled at the start of each financial year.

The following request have been received by Jurie Shanana, who is the Chief Audit Executive (hereafter CAE) of DF with regards to the internal audit activities:

- The financial director has requested internal audit to schedule an investigation into the payroll and personnel cycle to determine whether DF is complying with the relevant regulations in terms of the Labour Relations Act, as there has been complaints from employees that DF does not payout any overtime.

The internal audit activities commenced for this year and the CAE explained the process they will follow:

- Jurie Shanana will be going on leave and therefore, the internal audit manager will be responsible to managed the internal audit activity (hereafter IAA);
- A junior internal audit trainee on the team will be responsible for the risk based internal audit plan as Jurie Shanana will be going on leave;
- A plan for the engagement containing only the scope of the engagement was developed and documented;
- A work program will not develop and document as the plan was considered sufficient;
- The internal audit team will only consider the governance processes of DF; and
- The internal auditors explained to senior management that they are taking on too many risks and therefore their level of inherent risk is too high. They recommended that DF implement controls. Senior management refused and the internal auditors left all the matters as is.

QUESTION 6

(23 MARKS)

**BusinessDay
News Worth Knowing**

PARLIAMENT’S portfolio committee on public enterprises has recommended that the legislature’s financial watchdog, the standing committee on public accounts (Scopa), investigate R8.5bn in irregular expenditure at Transnet.

Should the National Assembly agree to let Scopa investigate, it can recommend that criminal charges be brought against executives responsible for wasting taxpayers’ money.

The public enterprises committee made the recommendation — along with a host of others involving state-owned companies and the Department of Public Enterprises — in a report tabled in Parliament yesterday.

In particular, the committee was concerned about the department’s inability to “pick up” fruitless and wasteful expenditure at state-owned companies.

The report summarised the companies’ annual reports and the outcome of public hearings in the past year on the performance of Transnet, Eskom, South African Airways, SA Express, Broadband Infraco, Alexkor, Safcol, and Denel and its subsidiary Denel Saab Aerostructures.

Transnet received the strongest sanction from the committee, which was unsparing in its criticism of the companies and the department’s ability to monitor them effectively.

“Concern was raised at the high prevalence of corruption, and clarity was sought where it was more prevalent,” the committee’s report noted in its observations about Transnet.

The R8.5bn in irregular expenditure relates to four contracts at Transnet that were entered into in 2017 and 2018. These were contracts for the provision of engineering, procurement and contract management services on capital projects; the supply of 32 gantry cranes; staff accommodation and the supply of rails.

The committee’s report cited Transnet’s auditors as raising concerns that these contracts had contravened the Public Finance Management Act.

The committee was also incentivised by the R10m incentive bonus paid to former Transnet Freight Rail CEO Siyabonga Gama while he was suspended, and said it needed more clarity on how the decision to reward him was made.

The report noted, however, that Transnet group CEO Brian Molefe had explained that the bonuses were paid to Mr Gama for the three years during which he worked before being suspended. He said Transnet was reviewing its bonus incentive scheme.

Mr Molefe also said Transnet had established anti-fraud committees within all of its divisions, which were managed by auditing firm Deloitte & Touche.

Public enterprises committee chairman Peter Maluleka said yesterday: “All the issues raised (in the report) are of concern to everybody. Our job is to ensure that the companies execute their mandates. We have seen a big improvement in the running of the companies recently.”



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Required section for Supplementary Assessment in January.

QUESTION 1

(23 MARKS)

YOU ARE REQUIRED TO:

Identify the concerns in terms of the Code of Corporate Governance for South Africa (King IV) from the above scenario, and for each concern provide a recommendation. (22)

Your answer should be in the following format:

Concerns regarding practices (6)	Recommendations regarding the practices (16)
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Presentation mark (Format) (1)

QUESTION 2

(12 MARKS)

YOU ARE REQUIRED TO:

- a. Discuss MS's contraventions of the SAIPA Code of Conduct in the appointment of MS as the new accountants of BAC. (4)
- b. Discuss MS's contraventions of the SAIPA Code of Conduct in the placement of an advertisement in the local newspaper (Appendix A). (7)

Presentation Mark (1)

QUESTION 3

(26 MARKS)

YOU ARE REQUIRED TO:

Discuss the contraventions of the Companies Act 71 of 2008 that are evident from the above scenario and provide suitable recommendations for the contraventions. Your recommendations must include specific guidance on the relevant sections from the Companies Act 71 of 2008. (26)

Please ensure that you follow the **state, define, apply and conclude** method to answer question 3.

QUESTION 4

(15 MARKS)

YOU ARE REQUIRED TO:

Draft a **memorandum** to Portia Mahlangu responding to the questions that she and the other members has in terms of the Closed Corporation Act as mentioned in the scenario. (14)

Presentation Mark (Format) (1)

QUESTION 5

(21 MARKS)

YOU ARE REQUIRED TO:

- a. Define internal auditing. (3)
- b. Discuss the type of internal audit the internal auditors of DF will perform on the payroll and personnel cycle. (10)
- c. Identify the violations in terms of the International Professional Practice Framework Standards (hereafter IPPF) during the process that the internal auditors followed when providing an internal auditing services to Dried Fruit (Pty) Ltd. (8)

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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QUESTION 6

(23 MARKS)

YOU ARE REQUIRED TO:

- a. Define irregular and fruitless and wasteful expenditure (4)
- b. "Should the National Assembly agree to let Scopa investigate, it can recommend that criminal charges be brought against executives responsible for wasting taxpayers' money". Explain whether this is justified in terms of the Public Finance Management Act and the Treasury Regulations by proving that there are contraventions with the PFMA in the scenario provided. You are also required to state the investigation process that should be followed if there are contraventions. (16)

Precision and Interpretations marks (3)