



FACULTY/COLLEGE	College of Business and Economics
SCHOOL	School of Accounting
DEPARTMENT	Department of Accountancy
MODULE NAME	Auditing 300 / Intermediate Auditing
MODULE CODE	AUD 300 / S3BCTQ1

ASSESSMENT DATE	18 November 2019		
ASSESSOR(S)	Ms Karlien Dempsey Ms Pranisha Rama		
MODERATOR(S)	Prof Ben Marx Ms Izette Nel		
DURATION:	226 minutes		
Reading time	38 minutes	Writing time	188 minutes
TOTAL MARKS	125 marks		

NUMBER OF PAGES OF QUESTION PAPER (scenario: 12 pages, required 5 pages)	17
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INFORMATION/INSTRUCTIONS:

1. Calculate the **reading time** that you should spend on each question by multiplying the number of marks for each question by **0,3** to determine the time, in minutes, available for each question. You may make notes on your question paper during the reading time, but may not write in your answer booklet.
2. Calculate the **writing time** that you should spend on each question by multiplying the number of marks for each question by **1,5** to determine the time, in minutes, available for each question.
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
9. This is an OPEN book assessment

QUESTION 1**[51 MARKS]****PART A****[36 MARKS]**

I'm-Going-Nuts Ltd (hereafter IGN Ltd) is a distributor in the South African and global dried fruit and nut industry. IGN Ltd is listed on the Johannesburg Stock Exchange (JSE). The board of directors is well aware of the fact that good governance in terms of the Code of Corporate Governance for South Africa (King IV) is compulsory for companies listed on the JSE, and as such has requested your review of the information provided below. IGN has a year-end of 30 September 2019.

The board of directors

The board meets every four months to ensure it is able to make decisions rapidly due to volatility in the dried fruit and nut industry as well as the high currency risk exposure due to export transactions. Decisions include, amongst others, the approval of capital projects and the appointment of new directors.

The following summary provides detail regarding the board of directors and their attendance of board meetings during the year:

Director	Role	11/01/19	28/03/19	03/09/19
Mrs. Macadamia	Chairman of the board	Y	Y	Y
Mr. Walnut	Chief Executive Officer (formerly the Marketing director)	Y	Y	Y
Mr. Almond	Financial director	Y	Y	Y
Mr. Cashew	Human Resources director	Y	Y	Y
Mr. Peanut	Health and Safety director	Y	Y	Y
Mr. Coconut **	Independent non-executive director **	N	Y	Y
Mr. Hazelnut CA(SA) *	Independent non-executive director *	N	Y	Y

* Resigned from IGN Ltd 8 years ago as Human Resources director

** Resigned from IGN Ltd almost 3 years ago as Senior Logistics manager

Y Attended

N Did not attend

The board has delegated duties to an audit, nominations, risk and remuneration committee and Mr Peanut has been appointed by the board as company secretary.

Sub-committee (audit, nominations, risk and remuneration committee) members are remunerated annually with 10 000 IGN Ltd share options. The remuneration committee found this to be the only viable method of remuneration, as directors of IGN Ltd are hesitant to become members of any sub-committee. Through a questionnaire in the current year, it was established that directors are hesitant to become members as they feel they take a lot of responsibility as a director and do not want additional responsibility (as delegated by the board) when becoming a member of a sub-committee.

Minutes of the meeting held on 3 September 2019

Mrs. Macadamia is the CEO of Peaches4Africa (Pty) Ltd (hereafter Peaches4Africa), the biggest supplier of dried peaches to IGN Ltd. During the meeting the contract with Peaches4Africa was one of the points on the agenda as the contract had to be renewed and there was a number of possible other suppliers. Mrs. Macadamia reminded the board that Peaches4Africa has always been a trustworthy supplier and that the good relationship between the two companies is worth a lot, even though Peaches4Africa is slightly more expensive than the rest of the suppliers. All members of the board subsequently voted in favour of renewing the contract with Peaches4Africa.

Internal Audit

The Internal Audit function is a critical function within the business.

The Internal Audit team currently consists of 5 members namely:

- Thembile Zwane (Chief Audit Executive (CAE), Bcom Internal Auditing, member of the Institute of Internal Auditors (IIA))
- Willem Smith (Internal Audit Manager, Degree in Interior design)
- Jabu Vongani (Internal Audit Supervisor, Degree in Physics)
- Milaste Jokomo (Internal Audit Junior, Bcom Internal Auditing)
- Kim Boustead (Internal Audit Junior, BA Journalism)

In addition to performing internal audit responsibilities, staff members assist the finance department with the processing of month end journal entries. All recommendations displayed in the Internal Audit Report are followed through, and management takes this seriously. Thembile is always promoting an open culture, whereby any issues can be directed to him and his team so in the event external audit require any info he is always ready to assist. Currently Thembile reports directly to the CEO. Internal Audit's focus area now is the testing of operating effectiveness of controls. Working papers are prepared by the junior staff and reviewed by the Internal Audit Manager or Supervisor and a final sign off is done by the CAE.

PART B

[15 MARKS]

(Reuters) - South Africa's financial regulator has fined audit firm Right & Wrong Incorporated (hereafter Right & Wrong) R2.1 million after the firm's audit of CompuX Corp's (hereafter CompuX) accounts failed to report irregularities in the country's worst accounting scandal in years despite being required legally.

An accounting scandal tied to about R1.2 billion in overstated operating profits was reported. Details of the scandal emerged the day before when an independent investigative panel released a report describing the accounting improprieties in detail. Improper accounting was found to have taken place over the course of seven years.

The Financial Services Agency (FSA) said it would also suspend Right & Wrong from taking on new business contracts for a period of 12 months.

The FSA said the fine was equivalent to two years' of auditing fees paid to Right & Wrong by CompuX. It was also found that large amounts of audit fees were paid to the auditors. In addition to audit fees, consulting service fees were also received for a period of 5 years.

"There was a grave breach of duty," an FSA senior official said at a news briefing. "The auditors were in charge of CompuX for many years and they had built a misplaced sense of confidence that CompuX would not do such things," the official, who declined to be named, said.

Further investigations revealed that the audit partner was close friends with the CEO. There were also instances of Right & Wrong being threatened by CompuX to be replaced as auditors.

Right & Wrong is the biggest accounting firm in South Africa, with about 3,500 certified auditors and more than 4,000 clients.

Kenneth Hanabusa, chairman and CEO of Right & Wrong said in a statement he would take responsibility for the affair and step down, when the accounting firm is expected to compile a business improvement plan demanded by the FSA.

"It is very regrettable that we have come to this situation," he said.

Source: Toshiba Accounting scandal adapted, Reuters

QUESTION 2

[44 MARKS]

PART A

[30 MARKS]

You are the audit manager at Madikizela Incorporated, a medium sized auditing firm that specializes in the Industrial Sector. Madikizela Incorporated clients ranges from small entities to listed entities. They have been the auditors of Solar Power (Pty) Ltd (hereafter Solar Power) for 3 years.

Solar Power was established in 2006 and their year end is 30 June. Their head office and factory is in Johannesburg. The current Chief Executive Officer, Mr Sheldon Morais and the Chief Operating Officer, Ms Khosi Magubane started Solar Power based on their fourth year engineering project. Solar Power manufactures solar panels and solar geysers and they are on average 45% cheaper than any imported product.

Jeanette Shabalala, Head of IT, is in charge of all the IT matters. Jeanette holds a diploma as a pastry chef but prefers the stability of working in a large entity and finds the role of Head of IT “challenging and stimulating”. As Jeanette seems so passionate, Sheldon and Khosi are happy for her to take charge and responsibility of all IT matters but haven’t appointed Jeanette to the Board of Directors. Even though Sheldon and Khosi both have an electrical engineering degrees they have no interest in IT. The IT department consists of Jeanette and 6 other IT managers.

Sheldon and Khosi felt it was important that the IT department have an open door policy and are easily accessible to all employees. Therefore, the IT office is situated next to the reception area. Jeanette has taken this policy very seriously and therefore the IT office’s door is always physically open. The server room is next to the IT office. As this is a quiet spot, employees often make private phone calls in the server room or enjoy a quiet lunch. The quarterly backups are also stored in the server room.

Solar Power prouids themselves in “work hard and play hard”. As a result, Jeanette and her team does not want to waste time with any system changes. If Sheldon or Khosi walk into the IT office, they will make the change immediately. Sheldon, Khosi and Jeanette are happy with this arrangement as the relationships within Solar Power is built on a firm foundation of trust.

Unfortunately, due to the location of the factory there isn’t a constant WiFi signal. In order to keep up to speed with the fast paced environment at Solar Power and the fast production line, all 6 inventory controllers use the same username and password to log onto the system. This enables them to stay logged onto the inventory application, inventory masterfile and electronic data interchange (EDI) system at all times. This username and password makes changes to all the records in the inventory application as well as the inventory masterfile. To mitigate the risk of a previous employee logging onto the system with the password, a new password is generated weekly by the IT managers and circulated every Monday morning. All inventory orders are placed through an EDI with its suppliers. This enables the inventory controllers to order inventory at anytime.

You are assisting the third year trainee accountant with the audit of inventory. Due to the large number of inventory items on hand, it was decided that the best way to test inventory is through

data analytics, specifically, data CAAT's. You are considered as one of the data analytics experts at Madikizela Incorporated and you are very excited to put your expertise into practice.

The third year trainee accountant provided you with an extract from the inventory masterfile so you can familiarize yourself with the format:

Reference	Description	Page
Annexure A	Extract from inventory masterfile	7

ANNEXURE A**Extract of individual inventory items extracted from the inventory masterfile of Solar Power as at 30 June 2019**

Line item number	Item code	Description	Quantity	Unit cost*	Cost price	Selling price	Date of last sale	Date of last purchase	Quantity sold year to date
<i>1-1049: not provided</i>									
1050	B101	E1616 16" black	10	7 800	82 000	8 346	28 Jun 19	6 Jun 19	31
1051	M005	E1616 16" metallic	14	7 900	110 600	8 453	30 Dec 18	11 Nov 18	45
1052	B105	E1916 19" black	0	9 900	-	10 593	14 Apr 19	12 May 19	17
1053	W79	E1916 19" white	-2	9 900	19 800	10 593	19 Apr 18	18 Apr 18	11
1054	B99	HK22 18"	80	8 500	680 000	9 095	5 May 19	18 June 19	276
1055	B103	HK22 20"	36	12 000	432 000	12 840	19 Jun 19	30 Apr 19	122
1056	B114	V206HQL	32	6 500	208 000	-6 955	21 Jun 18	5 May 19	108
1057	B102	V208HQL	69	7 600	524 400	8 132	22 Jun 19	17 Apr 19	88
1058	M010	V2010HQL	55	8 900	489 500	9 523	05 Apr 19	28 Sep 18	189
1059	B118	SE2216H 24"	102	13 900	1 417 800	14 873	28 May 19	4 Jun 19	205
1060	B97	SE2216H 24" port	88	15 000	1 320 000	16 050	06 May 19	7 May 19	18
1061	B109	200V LQ LED black	43	-7 500	-322 500	8 025	29 Jun 19	1 April 19	147
1062	M003	200V LQ LED silver	27	7 500	202 500	8 025	19 Jun 19	23 Jun 19	91
1063	W84	200V LQ LED white	0	7 500	-	8 025	26 Jun 19	27 May 19	21
1064	B115	24M38H 24"	5	12 250	61 250	9 000	23 May 19	18 Apr 19	14
<i>1065 – end: not provided</i>									

* Unit cost correctly applied is FIFO

PART B

[14 MARKS]

The following article was obtained from News 24.

**SA Express flight cancellations ‘could be a sign that it and SAA should fold’
29 AUGUST 2019, 08:30AM / SIZWE DLAMINI**

Economist Mike Schüssler says SA Express and SAA are not immune to failure.

CAPE TOWN – The abrupt cancellation of flights by SA Express on Wednesday could be a sign that it is now time for the state-owned airline and its parent company South African Airways to fold.

This was according to Mike Schüssler, owner of Economists dotcoza, who said the airline, along with its parent company SAA, was not immune to failure.

SA Express’s divisional manager of marketing, brand and product, Mpho Majatladi, said on Wednesday that operations resumed after 4pm and that it regrets the inconvenience that this had caused to its passengers and other customers.

“The airline’s flights were cancelled for operational reasons. Alternative travel arrangements were provided for all passengers to get to and from their destinations,” said Majatladi.

Reports claimed that the airline’s management was locked in meetings for the better part of the day, trying to find a solution. Majatladi could not be drawn to comment further on the cancellation.

Schüssler said the impact on domestic tourism would be huge, especially to the smaller towns that the airline services. “High-end tourism will not be spared either. It’s sad that this is happening again.

“SAA is not making any money and such an event is more than likely to cause travel agents to avoid making bookings with the airline,” he said.

The South African Civil Aviation Authority suspended the airline’s operating permits in May last year around the same time Public Enterprises Minister Pravin Gordhan announced the appointment of a new SA Express board.

SA Express was again in the news earlier this year when its chairperson, Tryphosa Ramano, took a hard stance against allegations of corruption at the company, and said the group would open fraud and corruption charges against its erstwhile executive over “multimillion-rand” theft.

Ramano said the decision to charge the former executives came after a thorough forensic investigation flagged a number of transactions, which might have prejudiced the airline by millions of rand prior to its temporary grounding last year.

Finance Minister Tito Mboweni has earlier made a case for selling the national carrier, saying it would be hard to find a private equity partner for SAA.

However, President Cyril Ramaphosa poured cold water on any future sale of SAA, saying the state-owned airline held too much debt.

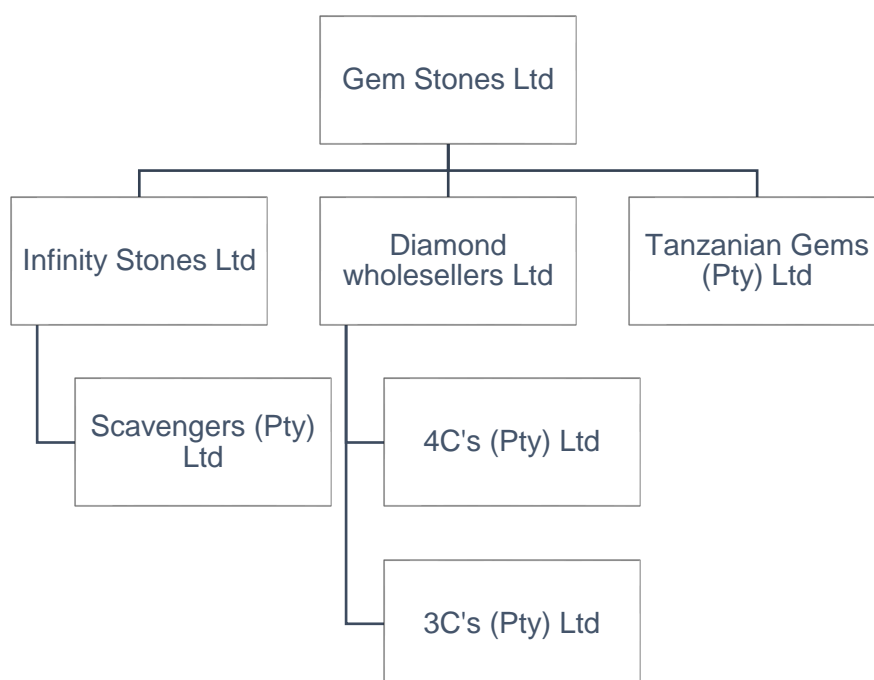
Ramaphosa said there would be no value gain from such a sale, suggesting that one would have to possibly pay somebody to take SAA off their hands.

He said the government was actively pursuing a private equity partner for SAA and possibly other state-owned enterprises.

QUESTION 3**[25 MARKS]**

Gem Stones Ltd is a market leader in the supply of precious gemstones and jewellery. The entity is located in Johannesburg and is listed on the Johannesburg Stock Exchange (JSE). Gem Stones Ltd has a complex group structure that has evolved over the years to accommodate various schemes and business practices. Mr Stern is the Chief Executive Officer (CEO) of the group.

You are the audit partner at Williams Incorporated (hereafter Williams Inc), the group auditor for Gem Stones Ltd. Williams Inc have audited Gem Stones Ltd for the last 4 years where you have been the engagement partner.



The following Workpapers have been prepared by Williams Inc:

Reference	Description	Page
B100	Background information: Infinity Stones Ltd	11
B200	Gem Stones Ltd possible restructure	12

Williams Inc

Client: Gem Stones Ltd

Period end: 30 September 2019

Prepared by: 1st year trainee

Date: 5 November 2019

B100

Reviewed by:

Date:

Background information: Infinity Stones Ltd

Infinity Stones Ltd, was started by a well-known South African businessman, Mr Thanos, before it was acquired by Gem Stones Ltd in 1997. Mr Thanos is the Chief Executive Officer (CEO). Infinity Stones Ltd sells exquisite jewellery items and is well known locally as well as internationally for high quality and craftsmanship. Infinity Stones Ltd expanded its operations 6 years ago, this expansion was funded 80% by debt of R15 million, a third of which is still payable by Infinity Stones Ltd. Due to this expansion, Infinity Stones Ltd now supplies its jewellery to over 20 countries across the world.

Infinity Stones Ltd sources its raw material from its only 100% held subsidiary, Scavengers (Pty) Ltd, a mining company which mines gold, diamonds and other precious gemstones across Africa. Scavengers (Pty) Ltd sells their inventory mainly to Infinity Stones Ltd, but also trades locally and internationally.

Due to the decline in the local and international economy, and the fact that jewellery is seen as a luxury good, Infinity Stones Ltd has faced significant losses over the last 3 years. The entity has recently retrenched all 50 of its members of its Jewellery Design department and Mr Thanos himself is seeing to jewellery design again. Three of the retrenched employees are suing Infinity Stones Ltd for unfair dismissal. Infinity Stones Ltd's ex head of the Jewellery Design department, Mr Stark and 15 of the retrenched employees joined Infinity Stones Ltd's major competitor, Gems of the Galaxy Ltd.

Williams Inc

Client: Gem Stones Ltd

Period end: 30 September 2019

Prepared by: 1st year trainee

Date: 8 November 2019

B200

Reviewed by:

Date:

Gem Stones Ltd possible restructure

In order to increase sales and supply goods to state owned entities as corporate gifts, Gem Stones Ltd would like to improve their B-BBEE rating from a level 6 to a level 4. Mr Stern wants to implement a scheme that will ensure Gem Stones Ltd “looks like a B-BBEE level 4 company” when in fact they are still a level 6.

Per discussion with Mr Stern he says he is aware that it might be fronting but he will have to be caught first and then he will reverse the scheme immediately and deal with the state owned entities then.