



FACULTY/COLLEGE	College of Business and Economics
SCHOOL	School of Accountancy
DEPARTMENT	Accountancy
CAMPUS(ES)	APK
MODULE NAME	Governance and Control 4
MODULE CODE	GOC8X00, GAC8X00
SEMESTER	Second
ASSESSMENT OPPORTUNITY, MONTH AND YEAR	Final assessment opportunity November 2019

ASSESSMENT DATE	2 November 2019	SESSION	08:30 – 12:45
ASSESSOR(S)	Mr Riyadh Moosa		
MODERATOR(S)	Prof Ben Marx and Mr. Saleem Razak RA(SA)		
DURATION	4 Hours and 15 minutes [30 minutes reading time and 225 minutes writing time]	TOTAL MARKS	150 marks

NUMBER OF PAGES OF QUESTION PAPER (Including cover page)	7
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INFORMATION/INSTRUCTIONS:

- This is a closed-book assessment.
- This paper consists of seven pages.
- This assessment consists of a single case study.
- You have 30 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 answer sheet. You will only receive the required section of the paper once the reading time is complete.
- Answer each question on a separate page.
- Cancel all open pages on your answer sheet with a pen. Pages on your answer sheet 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.**
- Write your name and student number clearly on your answer book.
- 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.

CASE STUDY: PART A

**(75 MARKS)
(115 MINUTES)**

Overview

You have recently been appointed as the chief governance officer for Proudly South African Teas (Pty) Ltd (Hereafter, PSAT). PSAT is located in the Cederberg area of the Western Cape Province in South Africa. The company primarily specializes in growing and producing rooibos tea for both the local and international markets. Rooibos only grows in this part of South Africa substantially because of the clean air and pure mountain streams that nourish the mountain slopes on which the Rooibos is grown. PSAT has 100 shareholders, which is broken down as follows: 60% owned by corporations and the rest belongs to individuals.

The governing body of PSAT is committed to complying with good corporate governance. The governing body of PSAT is comprised as follows: Mr. F Roses, chair of the board, his wife, Mrs. T Lipton, the managing director and Mr. R Joko, an independent non-executive director who also provides consulting work to PSAT on a regular basis. PSAT has also set-up all the committees as recommended by King IV. Mr. Roses remarked that he is relieved that an external audit is not necessary because PSAT is a private company.

Additional information:

To get you started, Mr. Roses provided you with the following information to give you an understanding of the major events that have transpired during the year.

Event 1:

Mr. Roses informed you that Mrs. P Glen, the finance director, was removed swiftly at the previous directors meeting from her position based on a director resolution, which was convenient, as she did not attend the meeting on that day. This came as a surprise to her.

The dismissal of Mrs. P Glen was rushed due to her incompetency relating to the internal preparation of the annual financial statements. Upon investigation it was discovered that, the reporting standard used could not be identified, it was also difficult to determine the financial position of PSAT, further to this it was unclear which financial period the financial statements were being prepared for. The first page begins with the accounting policy, as PSAT has never audited their financial statements in the past. In the haste of her leaving Mrs. P Glen did not sign-off the financial statements as preparer.

Event 2:

PSAT has recently concluded a service level agreement with Mr. Jacobs on behalf of Safe Travels (Pty) Ltd that is yet to be incorporated, for delivery services of the rooibos tea products throughout the country. Safe travels (Pty) Ltd has subsequently been incorporated for a period of 4 months. However, no decision have been taken regarding the contract since incorporation.

Event 3:

Mrs. T Lipton co-owns a drive-by café called Rooibos-All-Day, which sell all types of rooibos tea. As business has not been doing well lately, Mrs. Lipton applied to Peoples bank for a loan of R400 000 to cover operational costs for the coming months. PSAT has provided security for the debt. Mrs. Lipton will not be liable to PSAT in the event that she defaults on her loan repayments.

Extracts of draft results

The Draft results for the 2019 financial year is as follows:

	2019 R'000
Gross Profit (represents 25% of total revenue earned for the year)	19 750
Profit for the year after tax	9 750
Share capital and share premium	1 000
Long term liabilities	68 650
Capitalised development	150 076
Property, plant and equipment	50 000
Current liabilities	14 652

Key risks facing the company

Mrs. S Sugar your risk officer who is responsible for identifying and assessing all risks at PSAT informed you that she has prepared a risk register displaying the top risks faced by the company. You had a look at the register and realized that while the content is correct and very useful to you, the format of the report is incorrect and lacks some insights. The details of the risk register is presented below:

Risk Register
Risks are assessed based on a scale between 1 to 5 for both probability (P) and impact (I). 1 being very low and 5 being very high.
<ol style="list-style-type: none"> Two loans were taken out during the current year based on a floating interest rate. This has been beneficial for PSAT as repayments on the interest portion has been low. Of concern is the recent economic forecasts, which predict volatility in the interest rates. (P) will occur and (I) is great Fraud perpetrated by employees. (P) not likely but (I) significant PSAT exports a significant amount of its products to customers overseas. (P) great and (I) more than minimal

Staff turnover is also a problem at PSAT, particularly because of the seasonal nature of the business. In the current year, the staff complement fluctuated as follows:

<u>Jan – Mar</u>	<u>Apr – Jun</u>	<u>July - Sep</u>	<u>Oct - Dec</u>
85	76	72	80

Mr. Roses sent the following article to you, as he is concerned about the recent xenophobic attacks that seem to be affecting farms.

FARMERS AND THE XENOPHOBIA FEAR

By Thami Magubane

A xenophobic attack on a farm in Donnybrook near Underberg, west of Durban recently, has left farmers on edge, with one considering leaving. The victim and farm owner, Charles Anderson, of Emerald Dale Farms said he was contemplating leaving the area. His farm came under attack after he rejected a demand by the community to dismiss six Zimbabwean employees. "My family has lived around here for close to a 100 years, but I am now thinking of leaving the area. "If I am not safe here and the community does not want me here, I have to think about the safety of my family."

Anderson owns three businesses that include a farming and timber business with 400 employees. He said the problems started when a message started circulating that there was going to be trouble at the farm. He was called to a meeting with the community and told to dismiss the Zimbabweans. "I made a commitment that I would not hire any more foreigners and I would need about a year to replace my Zimbabwean employees. "I need these employees; they have skills that I need to run the business." He said the leader of the protest was a former employee who resigned about a month ago after being reassigned to a different division where his manager was a Zimbabwean.

Anderson said at another community meeting people said "either the Zimbabweans go, or I go". "At about 2am on Thursday, my son told me that the community was killing my cattle. "About two cows were killed and 10 others were severely injured and had to be put down. "We had secured a court interdict and the police failed to serve it on Thursday. I believe that if they had served the interdict, my cattle would not have been killed." He also accused the protesters of torching a house being used by one of his employees that was worth more than R200 000.

Community member Mduduzi Sithole said it was true the community wanted the Zimbabweans to leave, but said the issue was not about xenophobia. "The workers have been complaining that foreigners were mistreating them at work. "We have tried numerous times to raise this with Anderson and he never paid attention to the complaint. "There are other foreigners living in the community and we coexist with them and there are no issues," he said.

Source:<https://www.iol.co.za/mercury/news/farmer-fears-backlash-of-xenophobia-21836648>

CASE STUDY: PART B

**75 MARKS
(110 MINUTES)**

Mr. Roses has sent you the following email, which requires your urgent attention.

To: governance officer
From: Froses@PSAT.co.za
Date: 4 November 2019
Subject: Control environment at PSAT

Dear governance officer

As you know, the governing body has a duty to implement control objectives within the business in order to obtain absolute assurance that our personal objectives will be met. We need to be careful about monitoring our internal controls because they have the following limitations, namely:

- Potential for human suffering
- Compliance with procedures deteriorating and
- Procedures becoming obsolete because of changing circumstances.

We need to take this very seriously because as you know, the responsibility for internal controls in the business lies with employees. This will entail that we give special attention to all our components of internal controls, namely, our control environment, control activities and monitoring of controls.

I have prepared and attached the following documents describing various aspects of our control environment at PSAT:

- Attachment 1: New Accounting System
- Attachment 2: Online Customer Order Form
- Attachment 3: Inventory Management
- Attachment 4: Weekly Wages Pay-out system
- Attachment 5: Tests of Controls

I will be in touch shortly about each task that you need to perform regarding each of the attachments above. In the interim, please go over these documents to familiarize yourself with its contents.

Regards
F Roses (Chair of the board)



PSAT – everybody's cup of rooibos tea

Attachment 1: NEW ACCOUNTING SYSTEM

In our accounting department, we are currently using the “Cuppa” accounting system, which is an off-the-shelf package. The decision, to purchase this system was primarily based on its name, as it appeared to be tongue in cheek in relation to the business of PSAT. It was however later discover that this accounting software does not provide sufficient functionality to allow for the type of reports to be used for effective decision-making. We subsequently, developed an in-house accounting system called “Edge”, which is aligned to our business needs. We are planning to convert to the new system within four weeks. We are happy that we have your expertise to ensure that this process runs smoothly.

Attachment 2: ONLINE CUSTOMER ORDER FORM

In the past, all orders for rooibos, tea was recorded manually onto an order book that was maintained by each sales representative. This resulted in orders being accepted from non-account holders. In addition, some orders were not filled timeously and in other cases not filled at all. We have introduced a new online customer order form into the “Edge” system as mentioned above. We have yet to implement application controls over this system. Below is an example of the template relating to the online customer order form. Please review it, and suggest application controls that can be implemented over this system. The form has been prepopulated to give you an example of what a completed form should look like with all the “correct data.

Customer Online Order Form**Account to be charged:** 12005**Date:** 4 November 2019**Vendor name:** B Botha**Order no:** A425**Requested by:** P Tetley**Deliver to :** 365 Hope Street, Greenside, Johannesburg

Quantity	Stock number	Description	Unit Price	Total Price
2	B124567	Vanilla rooibos lattes	R25	R50

Authorised**Manager to click to confirm order****Attachment 3: Inventory Management**

In the past, managing inventory by way of doing inventory counts was not given priority. This was primarily because it was assumed that our accounting system “Cuppa” as previously mentioned provided up to date real-time records. This was obviously not the case. We therefore require you to design an internal control system for our inventory count.

Attachment 4: WEEKLY WAGES PAY-OUT SYSTEM

Our staff, who work in the fields to farm the rooibos tea, are paid on a weekly basis. Our staff prefer to be paid their wages in cash and not through their bank accounts, because of the additional administrative burden placed on them, as the closest ATM machine is located 20kms away from our farms. The weekly wages preparation and pay-out process is as follows: Wages are paid to temporary staff on a Friday afternoon. John Brits, the payroll accountant, prepares weekly pay packets. To save on time, John uses the list of temporary employees for the previous week to prepare the pay packets for the current week. He is also responsible for drawing the cash that will be put into the pay packets. This is normally done at the beginning of the week, and these pay packets are stored in a drawer in his office. On a Friday morning, he hands the pay packets to the farm manager, Mrs. Jacobs who will conduct the wages pay-out. Once Mrs. Jacobs receives the pay packets, she immediately walks around the farm to hand out the pay packets to each staff member. Those staff members that cannot be found because they are probably very busy, their pay packets are given to staff that she knows will deliver it to them. If any pay packets remain after conducting the pay-out, she will return them to John. Those employees who did not receive their wages, contacts John directly, who promptly ensures that the wages are paid. All unclaimed pay packets remain with John until all employees claim their wages.

Attachment 5: TESTS OF CONTROLS

I am developing a plan to perform tests of controls within our purchases and payments cycle. I have not done this in a long time, but I am certain that testing controls only includes inspections and observations. I think that the operating effectiveness of controls means that they are designed to prevent, detect and correct errors and fraud. The beginning of the financial year will be the best time to perform these tests, as it will cause minimal disruption to our activities.

	Control Objective	Internal Control	Tests of control
1	?	Department heads must review all purchase requisitions before authorizing them.	?
2	All cheque requisitions are accurate	Cheque requisitions should be sequenced and pre-printed (This control is yet to be implemented)	?
3	All recorded purchases in the purchases journal are valid	?	?

Will you please complete the above table for me, so that I can send out this program to the internal auditors to conduct the testing.

**REQUIRED SECTION FOR THE FINAL ASSESSMENT**

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NUMBER OF PAGES OF QUESTION PAPER (Including cover page)	3
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REQUIRED:
CASE STUDY: PART A

(a)	With reference to the information contained in the scenario, discuss your concerns relating to all aspects of non-compliance with King IV	(10)																				
(b)	Discuss and conclude on whether Mr. Roses is correct regarding his statement about having an external audit.	(10)																				
(c)	With reference to the information contained in the scenario, discuss your concerns relating to all aspects of non-compliance with the Companies Act of 2008.	(20)																				
(d)	<p>Prepare a risk register based on the three risks identified according to the following format so that it reflects better insights:</p> <table><tr><th>Risk</th><th>Risk type</th><th>Inherent risk rating</th><th>Discussion of risk on business</th><th>Managing risk</th></tr><tr><td>1</td><td></td><td></td><td></td><td></td></tr><tr><td>2</td><td></td><td></td><td></td><td></td></tr><tr><td>3</td><td></td><td></td><td></td><td></td></tr></table> <p>Note:</p> <ul style="list-style-type: none">Your responses to the managing risk column must be at a high level i.e. detail not required	Risk	Risk type	Inherent risk rating	Discussion of risk on business	Managing risk	1					2					3					(20)
Risk	Risk type	Inherent risk rating	Discussion of risk on business	Managing risk																		
1																						
2																						
3																						
(e)	Use the RIMS strategy to resolve the ethical dilemma as presented in the article provided.	(15)																				
Total		(75)																				

<The “REQUIRED” for PART B is on the next page>

REQUIRED:
CASE STUDY 2: PART B

(a)	Critically evaluate the contents of the email sent to you by Mr. Roses.	(10)				
(b)	Refer to attachment 1 and describe the conversion controls that should be in place so that the conversion to the “Edge” system runs smoothly.	(10)				
(c)	<p>Refer to attachment 2 and respond to the request by Mr. Roses.</p> <p>Your answer should be presented in a table as follows:</p> <table><tr><th>Application controls</th><th>How it applies to the data on the online order form</th></tr><tr><td> </td><td> </td></tr></table> <p>Note:</p> <ul style="list-style-type: none">• An application control may be applicable to more than one issue.• Marks will only be awarded for the correct application of the “application controls”	Application controls	How it applies to the data on the online order form			(10)
Application controls	How it applies to the data on the online order form					
(d)	<p>Refer to attachment 3 and deal with the instructions as stated.</p> <p>Note:</p> <ul style="list-style-type: none">• You must not deal with controls relating to “planning the count”	(8)				
(e)	<p>With reference to attachment 4, identify the weaknesses in the weekly wages pay-out system and provide recommendations.</p> <p>Note:</p> <ul style="list-style-type: none">• Your answer should be presented in a table format	(20)				
(f)	<p>With reference to attachment 5 do the following:</p> <ul style="list-style-type: none">• Criticise Mr. Roses understanding of tests of controls; and• Complete the table, as instructed by Mr. Roses.	(10)				
Communication and presentation marks		(3)				
Precision & Interpretation marks		(4)				
Total		(75)				