



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	Replacement assessment opportunity January 2020

ASSESSMENT DATE	7 January 2020	SESSION	08:00 – 12:15
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)	6
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INFORMATION/INSTRUCTIONS:

- This is a closed-book assessment.
- This paper consists of six 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

**(48 MARKS)
(72 MINUTES)**

You are the internal auditor of SkyNet Limited (hereafter referred to as SkyNet), a large company that manufactures telephone systems and telephone devices used to provide a wireless service to its clients. The company has various subsidiaries and fellow subsidiaries in the group. SkyNet Limited has been listed on the Johannesburg Securities Exchange Limited for the past several years.

Mr. Jacob Dube, is the chief executive of Skywire Technologies Limited (hereafter referred to as Skywire), the largest subsidiary of SkyNet. SkyWire specialises in technology to transfer power safely, efficiently and over distance. The SkyWire Technology will improve products by making them more convenient, reliable and environmentally friendly.

Mr Jacob Dube and his two sons, Cyril and Richard, started the company in 2004. It was listed on the Johannesburg Securities Exchange a year later. SkyNet purchased a 51% stake in SkyWire in 2006 after recognising the potential application of the company's products.

Skywire has always been a tightly run company. Jacob Dube, together with his sons Cyril and Richard own 80% of the shares in the company since its original listing and SkyNet purchased their 51% stake from the Dube Family's shares for a considerable sum. In addition to being shareholders, Jacob is the chair and CEO of the Board, and Cyril and Richard fulfil the roles of financial director and marketing director respectively. The remaining two positions on the company's board are the Human Resources Director and Operations Director who are both male. Jacob Dube insists on the board of directors being totally committed to, and involved in the company.

Jacob Dube is unhappy about the pressure that is constantly being exerted on SkyWire by SkyNet. He feels that they make too many demands on SkyWire's time and resources for unnecessary information. For example, SkyNet has implemented a new Code of Ethics for the Group. This Ethical Code replaces the previous one that was implemented in 2009. SkyNet requires all companies in the group to implement this Code by the end of the year and report back on the implementation. Jacob is of the opinion that there is no time to implement this code and doesn't even know where to start with the implementation or how to do it. SkyWire didn't implement the previous Code of Ethics in 2009 for the same reason. The internal auditors have reported the non-compliance of SkyWire in their monitoring reports to the Group Audit Committee. One of the area's in Jacob Dube's performance indicators is ethical conduct and the implementation and monitoring of the Group Code in SkyWire.

The financial manager of SkyWire, Rajesh Jupta has suggested that SkyWire purchase 21 946 089 shares of the total 190 835 555 shares in issue in SkyNet. The shares are currently trading at 449c per share. He believes that this will allow SkyWire to have a say in the management decisions that are taken at the top level. Rajesh further suggests that the overdraft facility of the company that has a limit of R100 000 000 be utilised for the purchase of the shares. SkyNet provides the bank guarantees for Skywire's banking facilities and this was confirmed with Mr. Gretton, SkyNet's CEO via email. The email only confirmed that SkyNet would provide the bank guarantees

for SkyWire's overdraft facility and did not give Mr Gretton the details of the share purchase in SkyNet that the overdraft will be used for. Jacob was very happy with the suggestion and instructed Rajesh to proceed with the transaction. He hope that once the transaction is finalised SkyWire can influence SkyNet into making less demands on SkyWire and let the company focus on making money.

CASE STUDY: PART B

**(25 MARKS)
(38 MINUTES)**

Fashions Ltd ("Fashions") is the holding company of a retail group listed on the Johannesburg Stock Exchange ("JSE"). The Group manufactures and distributes clothing, for men, woman and children, and only sells products that carry its own branding which are sold to consumers through the Fashions stores across South Africa and the group currently has no plans to expand their retail footprint outside of the country. Products are currently manufactured in China due to the lower labour rates and flexible labour laws compared to South Africa.

Technology has been critical to the success of the company as the group is reliant thereon to manage operations, manufacturing, sales and reporting. Due to cost containment initiatives there has however been limited funding available for capital investment in information technology and this has resulted in increased system downtime.

The audit committee at Fashions has requested the internal audit department to ensure that the various departments are adhering to the policies around internal controls. You have been assigned to the team responsible for this task to ensure that internal control objectives are achieved.

CASE STUDY: PART C

**(77 MARKS)
(115 MINUTES)**

Plumb Center (Pty) Ltd (hereafter PCPL) is a specialist plumbing, bathroom and kitchenware merchant currently operating from 12 stores strategically situated throughout South Africa. PCPL is the accepted market leader and has a solid history dating back to 1979. More than 4 500 quality products are sourced from over 250 local suppliers offering a broad product range, including state-of-the-art and exclusive ranges. Products include plumbing materials and accessories, bathroom and kitchenware and plumbing supplies. Products are carefully selected to ensure they are of the highest quality and offer excellent value and are SABS approved. With a growing base of 3 000 loyal clients, PCPL service government, commercial, industrial, housing and DIY projects. PCPL offers a service that their clients can count on.

You have recently been appointed as an internal auditor in the Internal Audit Department of PCPL. The internal audit manager has presented you with the following description on the purchases and payments system of PCPL:

Mr. Tap, the stores supervisor, is responsible for ordering goods from authorized suppliers as per the company's inventory re-order levels. For normal purchases, Mr. Tap obtains quotes from suppliers before placing the order and makes out a purchase order in duplicate to the chosen supplier. The top copy is mailed to the supplier and the second copy of the order is filed in numerical sequence in the stores department.

It sometimes happen that inventory shortages do arise and in such situations, orders are telephoned through to suppliers so as to ensure more rapid delivery of goods. (No quotes are required for emergency orders if the order is made to an approved sole supplier).

When the goods are delivered, Mr. Tap inspects their description, quality and quantity to the order (superficial quality check), if there is one, and makes out a pre-numbered two part goods received note (hereafter GRN). Where there is a written order, the top copy of the GRN is attached to it. Before close of business each day the daily batch of orders and goods received notes are given to Ms. Smith who works in the accounts department. PCPL has sound batch controls in place.

Ms. Smith stamps the GRN with a grid stamp, which is initialled by her as evidence of having agreed the quantity per the GRN with the suppliers' delivery note and the invoice when it is received. The grid stamp also requires Ms. Smith to enter on it the particular department general ledger account number to which the purchase is to be allocated. GRNs and orders are filed alphabetically by supplier name.

When invoices are eventually received, Ms. Smith checks the quantities of the goods invoiced against the GRNs, the prices against the suppliers' price lists and the arithmetical accuracy of the invoices where after she initials the grid stamps as evidence of having done so. Invoices are attached to orders and GRNs and the daily batch of such documentation is passed to the data processing department for capture onto the computer.

There are adequate controls over batches and the input of data into the computerized accounting system. Ms. Patterson, who is responsible for preparing cheques, only does so once she has reconciled balances per the accounts payable ledger to suppliers' month end statements.

The batch of documentation supporting a payment is passed to Mr. Padia, the chief accountant, who is the first cheque signatory. Mr. Padia marks invoices and statements as paid, once he has signed the relevant cheques. The cheques and supporting documentation are then given to Ms. Sutton, the Managing Director, who is the second cheque signatory. Ms. Patterson receives the cheques back after it were signed in order to mail them to suppliers.

All cheques are recorded in numerical sequence in the cash payments journal by the data processing department. Mr. Padia reviews the cash payment journal regularly for missing cheque numbers. In this way, it is ensured that the cash payments journal is complete and correct. Returned paid cheques are sequentially filed by the mail opening clerk, Ms. Mokoena. Adequate controls exist over unused stationery.

The internal audit department also requested the financial manager to complete an internal control questionnaire on the revenue and receipts process at PCPL. Below is an extract from the questionnaire documented in working paper A200:

Working paper A200			
	Function: Order department	Yes/No	Comments
1	Are all orders received from customers, recorded on sequenced internal sales orders (ISOs)?	No	ISOs are only made out for orders received over the telephone. When an order is faxed or sent through the post, an ISO is not necessary as we have a document to work with. ISOs are pre-printed but are not sequenced as there is no need for this.
2	Does the order clerk confirm that all orders received are from authorised customers (account holders)?	No	If an order is accepted from a non-account holder the accounting department will pick it up later on, when the customer signed delivery note is sent to the department.
3	Does the order clerk confirm that the order will not result in the customer exceeding its credit limits prior to accepting the order?	No	This is not applicable. Before opening an account for a customer, we request two trade references from the customer which we follow up. Only if these are satisfactory, will we open an account for the customer. There is no need to set credit terms or limits.
Function: Warehouse/Despatch department			
4	Are goods picked from the stores using sequenced picking slips (ISO)?	No	This is not applicable. The order department will contact the warehouse department telephonically when an order has been approved and inform the warehouse manager which goods must be picked both in terms of quantity and description.
5	Does a senior staff member check that all goods picked agree to the order? (Either an ISO or a customer order/fax)?	No	This is not necessary. Goods picked are laid out in the picking area for dispatch. Pickers are instructed to pick carefully according to instructions obtained from the warehouse manager.

Payroll

The Financial Manager of PCPL, Joe Fisher, has sent you an email relating to internal controls over the wages system that should be in place over the payroll cycle. See the details of the email below:

Hi,

I hope this email finds you well.

I need your help regarding internal controls that should be in place over the wage system. I am aware that systems of internal control have inherent limitations, I am just uncertain what they are and therefore I am not certain about what benefit the implementation of these controls would have over the wages expense.

However, the Audit Committee has made it clear that controls must be implemented. Currently all our employees at PCPL are paid a monthly salary, but due to the high demand for our products, we plan to increase production at our warehouse. Hence, we will have to appoint additional warehouse employees. The decision was taken to appoint 50 wage employees who will be paid weekly.

We have already started with the design of the necessary internal controls around the payroll function. However, we are uncertain about the general controls to be implemented around the cycle and specifically what internal controls we can implement around the recording control objective to ensure all payroll transactions are correctly recorded

**REQUIRED SECTION FOR THE REPLACEMENT ASSESSMENT**

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**REQUIRED:
CASE STUDY: PART A**

(a)	Draft a report to the Chief Audit Executive in which you fully discuss all the ethical, statutory and governance contraventions in the scenario. Statutory contravention must make reference to the Companies Act 71 of 2008 and corporate governance contraventions to the King Code of Corporate Governance (King IV). Note: Marks will be awarded as follows: <ul style="list-style-type: none">• Ethical considerations – (8 marks)• Statutory (Companies Act) – (20 marks)• Governance (King IV) – (20 marks)	(48)
Total		(48)

**REQUIRED:
CASE STUDY: PART B**

(a)	Identify and explain the key risks that Fashions is exposed to, based on the information provided. Note: <ul style="list-style-type: none">• You must present your answer using a table format• Ignore the information relating to the request by the audit committee <p style="text-align: right;">(UNISA adapted)</p>	(15)
(b)	Fully discuss the type of audit the internal auditors will be providing to the audit committee in terms of their request.	(10)
Total		(25)

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

REQUIRED:
CASE STUDY: PART C

(a)	With reference to the purchases and payments system at PCPL: a) Identify the control weaknesses in the purchases and payments system of Plumb Center (Pty) Ltd. (12 marks) b) Explain the possible consequence(s) for each control weakness identified above. (12 marks) c) State the management assertion (internal control objective) that each weakness (consequence(s)) relates too. (12 marks) Note: • Present your answer in a table format as follows: <table><tr><td>Weakness</td><td>Consequences</td><td>Management assertion</td></tr></table> • You are not required to deal with computer controls.	Weakness	Consequences	Management assertion	(36)
Weakness	Consequences	Management assertion			
(b)	Based on the extract from the internal control questionnaire provided in working paper A200, assist the internal audit junior to identify weaknesses in the revenue and receipt cycle of PCPL For each weakness identified, explain why you believe it is a weakness. Note: • Tabulate your answer as follows: <table><tr><td>Weakness</td><td>Explanation</td></tr></table>	Weakness	Explanation	(20)	
Weakness	Explanation				
(c)	Refer to the email sent by Joe Fisher and provide a response to all his uncertainties as expressed by him in the mail	(14)			
Communication and presentation marks		(3)			
Precision & Interpretation marks		(4)			
Total		(77)			