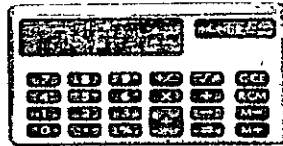


UNIVERSITY EXAMINATIONS



UNIVERSITEITSEKSAMENS

UNISA 
university
of south africa

AUE2602

October/November 2016

CORPORATE GOVERNANCE IN ACCOUNTANCY

Duration 2 Hours

100 Marks

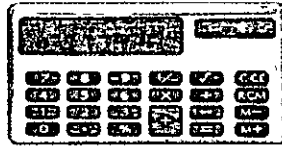
EXAMINATION PANEL AS APPOINTED BY THE DEPARTMENT

Use of a non-programmable pocket calculator is permissible

Closed book examination

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[TURN OVER]

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THIS PAPER CONSISTS OF **SIX (6)** PAGES.

This paper consists of the following questions and main topics

QUESTION	MAIN TOPIC	MARKS
1	Corporate governance	21
2	Internal control limitations and internal control in the revenue and receipts cycle	29
3	Internal control in the production and inventory, payroll and personnel, and acquisition and payments cycles	50

		100
		=====

NOTE

Although the primary purpose of the examination is to test your knowledge and application of the subject matter, your ability to organise and present such knowledge in written language of an acceptable standard will be taken into consideration by the examiners

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QUESTION 1

21 marks

Motor Mania (Pty) Ltd (hereafter referred to as Motor Mania) has manufactured motor vehicles since 1950. The company was established by Mr G Volving who retired as the chief executive officer (CEO) two years ago and currently holds the position of non-executive chairman of the board of directors of Motor Mania. His brother in law Mr F Mercede took over the position of CEO of Motor Mania when Mr Volving retired. The rest of the board of directors of Motor Mania is composed as follows:

Mr H Fiato	Independent non-executive director
Ms D Citro	Human resource director (executive director)
Mr K Mithi	Financial director (executive director)
Mr C Hondas	Risk director (executive director)
Ms J Kiaso	Non-executive director *Note 1
Ms L Minnie	Non-executive director *Note 2

Note 1: Ms J Kiaso holds 12% of the shareholding of Motor Mania which she inherited two years ago from her grandfather who was a very well-known businessman.

Note 2: Ms L Minnie is the daughter of Mr G Volving and is a qualified industrial engineer.

Corporate governance

Mr F Mercede announced at the last board meeting that he would like the board to consider listing Motor Mania's equity on the JSE (previously the Johannesburg Securities Exchange) to obtain additional capital for expansion.

Board committees

Motor Mania has established an audit committee and a remuneration committee. Mr Volving heard about a nominations committee as well as a risk committee while attending a corporate governance seminar, but is unsure about the membership requirements and functions of these committees. Mr K Mithi was appointed as the chairman of the audit committee and he and the other member of the audit committee, Ms J Kiaso, meet every six months. Ms L Minnie currently holds the position of chairman of the remuneration committee.

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REQUIRED	MARKS
<p>1.1 Comment on the information provided in relation to the requirements of sound corporate governance in terms of the King III Report assuming that Motor Mania will list its equity on the JSE</p> <p>Present your answer under the following headings</p> <p>a) Board of directors composition and appointments (four comments) (6)</p> <p>b) Board committees (three comments) (4½)</p> <ul style="list-style-type: none">Both compliance and non-compliance should be discussed in your answers to a) and b). <p>c) The chairman of the remuneration committee announced that she will resign next month Indicate in terms of the recommendations of the King III Report, giving brief reasons, which of the current board members will be suitable to be appointed as the chairman of the remuneration committee (3)</p> <p>d) Explain to Mr Volving what the function of a nominations committee is according to the King III Report (1½)</p> <p>e) Indicate, in terms of the recommendations of the King III Report, how many times the risk committee should meet per year (1½)</p> <p>f) Explain, in the context of the King III Report requirements for internal audit, what the term "risk based audit approach" means (3)</p> <p>Communication, logic and structure (1½)</p>	

QUESTION 2

29 marks

Greenleaf (Pty) Ltd (hereafter referred to as Greenleaf) is a wholesaler that supplies many species of trees and flowers to nurseries across the country. Mr G Flower, the owner of Greenleaf, has implemented good internal controls in the revenue and receipts cycle as he sees this part of the business as the most important. He implemented the following internal controls:

- a) All sales orders are recorded on sequentially numbered internal sales orders (ISOs)
- b) No sales order is accepted if the customer is not on the approved customer list
- c) The warehouse clerk checks the goods picked to the picking slip and prepares a delivery note in duplicate from the picking slip

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- d) On delivery of the goods to the customer, the customer signs both copies of the delivery note after he has checked the goods. He retains one copy and returns the other copy to the driver
- e) As signed delivery notes are received, they are matched to their internal sales order and filed sequentially by delivery note number
- f) The invoice clerk compares details of the delivery note to the internal sales order, prepares a numerically sequenced invoice and cross-references it to the delivery note
- g) Invoices are entered in the sales journal in numerical sequence

REQUIRED

MARKS

- 2.1 **List and describe four (4) limitations of internal control** that could threaten Greenleaf's objectives from being achieved (10)
- 2.2 Based on the internal controls implemented in the revenue and receipts cycle
 - 2.2.1 **Identify the function** in the revenue and receipts cycle in which the internal controls listed in (b) to (g) are most likely to occur (9)
 - 2.2.2 **List a potential risk** that will arise should Greenleaf not implement these internal controls, listed in (b) to (g) (9)
- Present your answer in the following format:**
Communication, logic, structure and presentation (1)

Internal control	Function (1.5 x 6 = 9 marks)	Risk (1.5 x 6 = 9 marks)
a	Receiving customer orders (No marks will be awarded for identifying this function)	Orders may not be acted upon timeously or at all, resulting in a loss of sales and customer goodwill (No marks will be awarded for identifying this risk)
b		
c		
d		
e		
f		
g		

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QUESTION 3

50 marks

Worldwide Toys (Pty) Ltd (hereafter referred to as Worldwide Toys) is a small toy manufacturer that opened a year ago. It specialises in educational toys for children between the ages of one and seven. Mr Fun, the owner of the business, wants to expand the business and appoint additional employees in the manufacturing division.

He is considering installing a manual clock system to facilitate accurate and complete timekeeping. Mr Fun read that there are many advantages to computerisation of the payroll system, but for now, he is satisfied to install a manual clocking system.

Inventory

Worldwide Toys' inventory is kept in a single tidy warehouse in Sandton, Johannesburg. An inventory count is conducted on an annual basis and the following procedures are followed:

1. The count takes place over two days for Worldwide Toys to receive and despatch goods during the second day of the count.
2. Eight warehouse employees are part of the count team and they each count a section of the warehouse on their own.
3. The warehouse administrator hands out the numerically sequenced inventory sheets with the description and quantity per item to the counters who count their section of the warehouse and tick off the quantities on the inventory sheets once they have counted the items.
4. If the counter counts a different quantity for an item than what is listed on the inventory sheet, he/she will highlight that item on the inventory sheet.
5. The warehouse administrator amends the quantities of all highlighted items on the inventory sheets on the perpetual inventory records to reflect the actual quantities on hand at the conclusion of the count.

Payment of suppliers

Worldwide Toys pays its suppliers via electronic funds transfers (EFTs). Mr Fun is concerned about the internal controls implemented in this function, specifically access to the bank account.

REQUIRED

MARKS

- 3.1 List the **internal controls** that should be implemented and actions to be performed to ensure that accurate and complete records of valid hours worked by employees are kept. **Limit** your answers to internal controls in the **timekeeping function** of the **payroll and personnel cycle**.

(12)

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REQUIRED (continued)		Marks
3.2	Provide Mr Fun with an example of how “ biometric data ” can be used in a computerised clocking system to identify employees	(1½)
3.3	Describe the advantages of biometric data that could be used in a computerised clocking system over an identification card or a clock card in a manual clock system	(1½)
3.4	Discuss the weaknesses in the year-end inventory count based on the information in the scenario	(15)
3.5	Describe the access controls that should be implemented to ensure good control over the bank account from where the EFT payments are made	(7½)
3.6	Provide a list of good password controls as part of access controls over the bank account	(10½)
	Communication, logic and structure	(2)