

Tutorial Letter 202/1/2018

CORPORATE GOVERNANCE IN ACCOUNTANCY

AUE2602

Semester 1

Department of Auditing

IMPORTANT INFORMATION

This tutorial letter contains the suggested answers to and comments on Assignment 02 for the first semester and the additional assessment.

BARCODE

Please note:

This tutorial letter contains the key to Assignment 02 and comments.

ASSIGNMENT 02 – FIRST SEMESTER

80 MARKS

QUESTION 1

9 marks

Compliance and non-compliance with the King IV Report regarding the composition of the board of directors

Reference: The King IV Report (2016:50-53)

1. The governing body should comprise a balance of power with a majority of non-executive members. Of the seven directors, three are executive directors and four are non-executive directors. Therefore they comply with principle 7 point 8 of the King IV Report. (1½)
2. The majority of the non-executive directors should be independent. Of the four non-executive directors, three can be considered independent. Therefore, they comply with principle 7 point 8. (1½)
3. L Maharaj, the chair of the board, is not an independent non-executive director as recommended by the King IV Report, principle 7 point 31. (1½)
4. AC de Villiers, the CEO, is not the chair of the governing body. In terms of the King IV Report, principle 7 point 31, the CEO should not also be the chair. Therefore, they comply. (1½)
5. As the chair is not independent, the King IV Report, principle 7 point 32, recommends that a lead independent director (LID) should have been appointed. They do not comply. (1½)
6. At least the CEO and one other executive director should be appointed to the board according to the King IV Report (principle 7 point 9). MobileMob Limited complies as the CEO and two other executive directors serve on the governing body. (1½)

Comments

- Principle 7 of the King IV Report states the recommendations regarding the composition of the governing body.
- You were required to comment on **both compliance and non-compliance**.
- You only need to **identify compliance/non-compliance with brief explanations** and not also the specific King IV principle which is included in the memorandum for reference purposes only.

QUESTION 2**13 marks****Other governing body committees****Reference:** The King IV Report (2016)

| | Name of committee (1½ marks each) | Function of committee (1½ marks each) |
|-----------|---|---|
| 1. | Nominations committee (1½) OR Committee responsible for nominations of members of the governing body (1½) | - The process for nominating, electing and appointing members of the governing body; (1½) OR - Succession planning in respect of governing body members; (1½) OR - Evaluation of the performance of the governing body. (1½) <i>Principle 8 point 60</i> |
| 2. | Risk committee (1½) OR Committee responsible for risk governance (1½) | Oversight of the risk governance within the company in a way that supports the organisation in setting and achieving its strategic objectives. (1½) <i>Principle 11</i> |
| 3. | Remuneration committee (1½) OR Committee responsible for remuneration (1½) | Oversight of the remuneration governance within the company to ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short medium and long term. (1½) <i>Principle 14</i> |
| 4. | Social and ethics committee (1½) | The responsibilities of the social and ethics committee should include its statutory requirements (if any) and any other responsibilities delegated to it by the governing body. (1½) <i>Principle 8 point 69</i> |

1 mark for presenting solution in a table format, and for communication, logical reasoning and structure

Comments

- You were required to provide your solution in a table format.

QUESTION 3**3 marks****Additional legal requirements****Reference:** Study Guide Learning Unit 1.4

MobileMob Limited should also adhere to the Sarbanes-Oxley Act (SOX) if they are listed on the New York Stock Exchange. (1½)

The main purpose of this act is to protect shareholders from fraudulent representations in corporate financial statements. (1½)

Comments

- In the United States of America, the Sarbanes-Oxley Act is the equivalent of the King IV Report used in South Africa. However, there it is enforced by law, and companies are required to adhere to the recommendations of the Sarbanes-Oxley Act. This is a good example of the concept “apply or else”.
- King IV is not enforceable by law, however, one of the JSE listing requirements is that companies adhere to the recommendations of the King IV Report.

QUESTION 4

16½ marks

Application controls to enhance accurate capturing of receipts

Reference: Jackson & Stent (2016:10/34)

1. The bank statement should be downloaded each working day so that receipts from debtors (and other items on the bank statement) can be processed promptly to individual debtors' accounts so that the debtors' ledger is up to date. (1½)
2. Debtors should be reminded to do the following:
 - a. To reference EFT payments clearly when effecting the transfer. This should preferably be a number (not a name) and if possible, the invoice numbers to which the payment refers, should be included. (1½)
 - b. To submit a remittance advice (preferably electronically) to the debtors section. (1½)
3. When processing the receipts reflected on the bank statement, the senior debtors' clerk will work with the references on the bank statement and the remittance advices. (1½)
 - a. There are various ways of processing receipts, but the invoice number will usually be the best. On entering an invoice number, the system should match the invoice number and amount to the file of unpaid invoices and if it finds a match, the debtor account to which the invoice is linked, should come up on the screen. (1½)
 - b. The debtors clerk should then select the enter (proceed) option, and the system will update the debtors account in the debtors masterfile and cash book records, as well as the file of unpaid invoices. (1½)
4. Any receipt which cannot be matched to an invoice number on the system will be processed to a “receipt suspense file: where it will remain until the problem can be resolved. (1½)
5. Removal of the receipt from the receipt suspense file must be limited to the senior debtors' clerk. (1½)
6. Any receipt for which there is a match to an invoice number, but the amount does not match will be written to a “receipt pending file”. (1½)
 - a. The credit controller should access the file on a daily basis to determine whether the discount can be approved. Normally, the authority to approve the discount will be limited to the credit controller. (1½)
 - b. If and when the discount is approved, the receipt will be processed immediately. (1½)

Comments

Did you limit your answer to the processing of the receipts as required in the question? Do not waste valuable time in the exam by writing more than required. Always follow the instructions set out in the questions.

QUESTION 5**19½ marks****Continuity of operations****Reference:** Jackson & Stent (2016:8/23)**a. Disaster recovery plan**

1. A written disaster recovery plan should be widely available to ensure there is no frantic search should a disaster occur. (1½)
2. More than one plan should be available in physical and electronic version. (1½)
3. The disaster recovery plan should address priorities i.e. where backup data etc. may be obtained, the existence of backup data. (1½)
4. The disaster recovery plan should be tested (ideally annually) to ensure that the plan works as intended. (1½)
5. The disaster recovery plan should detail alternative processing arrangements, e.g. using a bureau, manual procedures should be in place if processing is not possible, controls to minimise disruptions. (1½)
6. The disaster recovery plan should be communicated to all employees. (1½)
7. And during the testing of the plan the roles and responsibilities should be evaluated. (1½)

b. Backup strategies

1. Backup of all significant accounting and operational data and programme files should be carried out frequently and regularly. (1½)
2. At least three generations of backups should be kept. (1½)
3. The most recently backed up information should be stored off-site. (1½)
4. All backups should be kept in fireproof safes and on-site backups should be stored away from the computer facilities. (1½)
5. Critical data and programs can be copied in real time to a “mirror site”, so that it is possible to switch processing to the mirror site in the event of a disaster. (1½)
6. Copies of all user and operations documentation should be kept off-site. (1½)

Comments

This was a purely theoretical question. You should be able to answer both theoretical questions and questions where you have to apply information from the scenario to the theory you have learnt.

QUESTION 6

19 marks

Reference: Jackson & Stent (2016:13/10)

Internal controls relating to the timekeeping function of the payroll and personnel cycle

| Risk number | Relevant internal controls |
|--|--|
| <p><i>Example:</i></p> <p>Risk 1: <i>There is a risk that employees can clock in and then leave the premises.</i></p> | <p><i>Example:</i></p> <ul style="list-style-type: none"> • <i>Entry and exit points to the work area should be limited (preferably one);</i> • <i>Entry and exit points to the work area should be protected by a “turnstile” type mechanism;</i> • <i>Entry and exit points to the work area should be supervised during clocking periods.</i> |
| <p>Risk 2: There is a risk that an employee can clock a card for a fictitious employee.</p> | <ul style="list-style-type: none"> • Entry and exit points to the work area should be protected by a “turnstile” type mechanism; (1½) • Entry and exit points to the work area should be supervised during clocking periods; (1½) • Clockcards to be prepared by the personnel department, strictly in terms of the authorised employee list, and placed on racks at the entry points; (1½) • At the end of a wage period, the section administration clerk should collect all clockcards for the period and agree the number of cards to the list of employees within the section. (1½) |
| <p>Risk 3: There is a risk that employees clock in for absent fellow employees.</p> | <ul style="list-style-type: none"> • Entry and exit points to the work area should be protected by a “turnstile” type mechanism; (1½) • Entry and exit points to the work area should be supervised during clocking periods. (1½) |
| <p>Risk 4: There is risk that hours on the clockcard are incorrectly calculated for normal and/or overtime.</p> | <ul style="list-style-type: none"> • At the end of the wage period, the section administration clerk should collect all clockcards for the period and calculate the ordinary time worked and the overtime worked; (1½) • Before the batch of clockcards is transferred for payroll preparation, the section head should check the calculations; (1½) • Before the batch of clockcards is transferred for payroll preparation, the section head should check and sign the batch control sheet. (1½) |
| <p>Risk 5: There is a risk that normal hours can be counted as overtime hours (which have a higher pay rate).</p> | <ul style="list-style-type: none"> • At the end of the wage period, the section administration clerk should collect all clockcards for the period and calculate the ordinary time worked and the overtime worked; (1½) • Before the batch of clockcards is transferred for payroll preparation, the section head should authorize |

| Risk number | Relevant internal controls |
|-------------|---|
| | <p>the overtime (the need to work overtime should be confirmed before it is worked); (1½)</p> <ul style="list-style-type: none"> • Before the batch of clockcards is transferred for payroll preparation, the section head should check the calculations. (1½) |

***No marks to be awarded for the example
1 marks for presenting solution in a table format, and for
communication, logical reasoning and structure***

OTHER ASSESSMENT METHODS

SOLUTION TO THE EXAMINATION PAPER INCLUDED IN TUTORIAL LETTER 101/2018 WHICH SERVES AS A SELF-EVALUATION ASSESSMENT EXERCISE

QUESTION 1

50 Marks

1.1 The requirements of sound corporate governance pertaining to the board of directors and board committees

Reference: The King IV Report (2016:43-73)

a) Board of directors: composition and appointments

1. F Plaster, the chair of the board, is an independent, non-executive director, as required by the King IV Report. (Principle 7 point 31). (1½)
2. The CEO, M Bricks, is not the chair of the board of directors, which is in accordance with principle 7 point 34. (1½)
3. The board should comprise a balance of power with a majority of non-executive directors. The board has four executive directors and four non-executive directors and the majority of directors are not non-executive. Therefore, they do not comply with principle 2.18. (1½)
4. The majority of the non-executive directors should be independent. Of the four non-executive directors, only two are independent – F Plaster and G Tiles. Therefore, the majority are not independent and they not comply with principle 7 point 8. (1½).
5. A chief executive officer (CEO) and at least one other executive director should be appointed to the Board (principle 7 point 9). They do have a CEO and other executive directors appointed to the board and therefore do comply with the principle. (1½)
6. For the board of directors to objectively and effectively discharge its governance role and responsibilities, it should be comprised of individuals with the appropriate balance of relevant knowledge, skills, experience diversity and independence (principle 7 point 6). From the composition of the board it would appear that the directors have the necessary qualifications and experience required by the King IV Report. (1½)

(Max 6 marks for this section)

b) Risk committee: composition and appointments

1. The risk committee has five members and complies with the requirements of principle 8, point 46 of three members. (1½)
2. Principle 8, point 45 requires that the board of directors should ensure that each committee, as a whole, has the necessary knowledge, skills, experience and capacity to execute its duties effectively. H Concre, the Risk Director, and L Buildt, a CA (SA) has the necessary skills and experience and they comply with the principle. (1½)
3. The risk committee has executive and non-executive directors as members. This is in compliance with principle 8, point 64. (1½)
4. The risk committee should have a majority of non-executive directors as members, principle 8, point 64. Three of the five members are non-executive directors; therefore, they comply with the principle. (1½)

(Max of 4½ marks for this section)

c) Company secretary

1. Principle 10 point 91, state that for some companies the appointment of a company secretary is a statutory requirement to provide professional corporate governance. The Companies Act no 71 of 2008, section 86(1) state that a public company must appoint a company secretary. As CGC Limited is a public company, the appointment of a company secretary is statutory. CGC Limited do not comply with the recommendations of the King IV Report, or the statutory requirements of the Companies Act, as no company secretary has been appointed. W Gable is only acting as company secretary. (1½)
2. The company secretary should maintain an arms-length relationship with the board as far as reasonably possible (principle 10 point 96). W Gable, the IT director, does not maintain an arms-length relationship with the board. (1½)
3. The company secretary should not be a member of the board of directors (principle 10 point 96). W Gable is the IT director and therefore part of the board. They do not comply. (1½)
4. Since W Gable is the IT director, it is doubtful whether he has the necessary competence, gravitas and objectivity and objectivity to provide the board with independent guidance and support as a company secretary as required by principle 2.21. Therefore, the company does not comply with the requirements of the King IV Report. (1½)

(Max of 4½ marks for this section)

(1 mark for presenting the answer under the correct headings)

Comments

You were required to comment on compliance and non-compliance. Therefore you only had to identify compliance or non-compliance and include brief explanations; you did not need to give the principle of the King IV Report. The memorandum includes the principle for reference purposes. Remember, when answering a corporate governance question you must include the theory, application and conclusion in respect of each statement.

1.2 Eligibility of M Bricks and G Tiles as members of the audit committee

Reference: The King IV Report (2016: 55-56)

M Bricks: No he is not eligible, because he is the CEO of the company and an executive director. All the members of the audit committee should be independent, non-executive directors (principle 8 point 56). (1½)

G Tiles: Yes, he is eligible because he is a non-executive, independent director. Therefore, he is eligible to be a member of the audit committee. (1½)

Comments

To be able to answer this question you had to know the requirements for membership of the audit committee.

1.3 Requests for the services of the Internal Audit Department

Reference: The King IV Report (2016: 68-70)

| Function number | Should the function be performed Yes/No | Brief reason |
|-----------------|---|---|
| 1 | Yes (½) | The Internal Audit Department should assist the board in analysing and evaluating business processes and associated controls systematically. (1) |
| 2 | No (½) | This is an operational activity and should not form part of the functions of the internal audit. (1) |
| 3 | No (½) | Internal Audit is not responsible for routine asset safeguarding procedures; and the review of the fixed asset register should be performed by the financial manager on a regular basis. (1) |
| 4 | Yes (½) | Part of Internal Audit's scope of work should be to assist in monitoring the company's compliance with laws and regulations. This assignment requires the Internal Audit Department to evaluate the company's responses to the risk of failing to comply with laws and regulations. (1) |

(1½ mark for presenting answer in table format)

Comments

Refer to principle 15 points 48-61 of the King IV Report where the key responsibilities of the Internal Audit Department are covered.

1.4 General physical access controls to prevent access to the computer on which the company's bank account software is loaded

Reference: Jackson & Stent (2016:8/17-8/18)

1. The building should have a dedicated room, in which all the equipment that supports the system is kept, for example the CPU and servers. (1½)

2. Only a limited number of personnel should be allowed access to the data centre. (1½)
 3. Entry to the data centre by company personnel other than IT personnel should be controlled; for example, visitors should make an appointment before visiting the data centre; and visitors should be escorted by security/IT personnel. (1½)
 4. Physical entry to the data centre (dedicated room) should be controlled:
 - Only individuals who need access to the data centre should be able to gain entry. (1½)
 - Access points should be limited to one. (1½)
 - Access should be through a door which is kept locked. (1½)
 - The locking device should be de-activated only by swiping a card, entering PIN number or scanning biometric data. (1½)
 - The entry/exit point should be kept under surveillance with closed circuit TV. (1½)
 5. Remote workstations/terminals should be controlled:
 - Terminals should be locked and secured to the desk. (1½)
 - Terminals should be placed where they are visible, but not close to a window. (1½)
 - Offices should be locked at night and over weekends. (1½)
 6. Data cables should be protected to prevent tapping as a means of accessing the system. (1½)
- (1½ for each valid internal control to the maximum of 10½ marks)**
(½ mark for correct presentation)

Comments

General physical access controls can be implemented in any of the business cycles to prevent unauthorised entry/access. You need to study these controls only once and then you would be able to apply them to any scenario.

1.5 Password control to prevent unauthorised access to the company's bank account

Reference: Jackson & Stent (2016:8/20)

1. Passwords should be unique to each individual. (1½)
2. Passwords should consist of at least six characters; and they should be random not obvious and a mix of letters, numbers, upper/lower case and symbols. (1½)
3. Passwords/user-ID's for terminated or transferred personnel should be removed/disabled at the time of termination or transfer. (1½)
4. Passwords should be changed regularly and users should be forced by the system to change their passwords. (1½)
5. The first time a new employee accesses the system, he/she should be prompted to change his/her initial password. (1½)
6. Passwords should not be displayed on PCs at any time, printed on reports or logged in transaction logs. (1½)
7. Password files should be subject to strict access controls to protect them from unauthorised read and write access. (1½)

8. Personnel should be prohibited from disclosing their passwords to others and subjected to disciplinary measures should they do so. (1½)
9. Passwords should be changed if confidentiality has been violated, or violation is expected. (1½)
10. Passwords should not be obvious – for example birthdays, names or names spelt backwards. (1½)
11. Two passwords from two separate personnel should be required to gain access to the bank account. (1½)
12. The passwords should only be valid and accepted by the system during company business hours. (1½)
13. Failed password login attempts should be logged and investigated. (1½)
14. Terminal shutdown should occur after three unsuccessful attempts to access the bank account. (1½)

(1½ for each valid control to the max of 12 marks)
(½ mark for correct presentation)

Comments

Password controls are important to any computerised environment and can be applied to any business cycle.

QUESTION 2

50 Marks

2.1 Internal controls relating to ordering goods in the acquisitions and payments cycle

Reference: Jackson & Stent (2016:11/9)

1. Order clerks should not place an order without receiving an authorised requisition/ approval process which should be cross referenced to the order. (1½)
2. Prior to the requisition being made out, store personnel should confirm that the goods are really needed especially where existing order quantities are used as the basis for the requisition. (1½)

Before the order is placed, a supervisor/senior buyer should:

3. Check the order against the requisition for accuracy and authorisation. (1½)
4. Review the order for suitability of supplier; reasonableness of price and quantity; and the nature of goods being ordered. (Are these items being sold by the company?) (1½)
5. The ordering department should file requisitions sequentially and review the files for requisitions that have not been cross referenced to an order. (1½)
6. Requisition files that have not been cross referenced to orders should be reviewed frequently. (1½)

7. The company should preferably have an approved supplier list the buyer should refer to when ordering. (1½)
 8. Before a supplier is approved, senior personnel should evaluate the company carefully in respect of its reliability and the quality and price of its goods. The reputation of supplier should be scrutinised. (1½)
 9. If the company does not have approved suppliers, the buyer should seek quotes/ compare prices of a number of suppliers before placing an order. (1½)
 10. The buyer should contact the supplier to confirm availability and delivery dates. (1½)
 11. A copy of the order should be filed sequentially; and the file should be sequenced checked and frequently cross referenced to goods received notes to confirm that goods ordered have been received. (1½)
 12. Alternatively, the pending file of purchase order forms in the receiving bay can be reviewed for orders which have been long outstanding. (1½)
 13. Blank order forms should be subject to sound stationery controls. (1½)
- (1½ for each valid control to the max of 10½ marks)**
(½ mark for correct presentation)

Comments

In the examination, identify which business cycle is described in the scenario; which function in the business cycle is described; and whether you are required to describe risks, internal controls or weaknesses.

2.2 Limitations of internal control

Reference: Jackson & Stent (2016:5/4-5/5)

- The potential of human error due to carelessness, distraction, mistakes of judgment and the misinterpretation of instructions/inexperienced staff. (1)
- The possible circumvention of internal controls through the collusion of a member of management, or an employee, with parties outside or inside the company. (1)
- The possibility that a person responsible for exercising an internal control could abuse this responsibility; for example, a member of management overriding an internal control. (1)
- Management's usual requirement that the cost of internal control does not exceed the expected benefit to be derived. (1)
- The tendency of directing internal controls at routine transactions rather than non-routine transactions. (1)
- The possibility of control procedures becoming inadequate due to changes in conditions; therefore, compliance with procedures may become inefficient. (1)

(1 for each valid limitation to max of 4 marks)

Comments

There are six limitations to internal control. To be able to answer a theory question or an application question in the examination, you should know what these limitations are and should understand why they have been identified as limitations.

2.3 Procedures for conducting a monthly inventory count

Reference: Jackson & Stent (2016:12/12-12/13)

1. The count staff should be divided into teams of two, with one member of the team being completely independent of all aspects of inventory. (1½)
2. All teams should be given a floor plan of the warehouse that clearly demarcates the inventory locations for which they are to be held accountable. (1½)
3. All inventory items should be counted twice. (1) One of the following methods could be followed:
 - One member of a team counts and the other records, swapping roles thereafter and performing a second count in the same section to which they have been assigned. (½)
 - Count teams complete their first counts, return their inventory sheets to the count controller and sign for the inventory sheets of another section, thereby doing their second counts on a section that has already been counted by another count team. (½)
4. The counters must mark the items neatly when counting the items. (1½)
5. When count teams identify damaged inventory the items must be marked as such on the inventory sheets. (1½)
6. The contents of boxes where the packaging appears to have been tampered with, should be counted and the details noted on the inventory sheet. (1½)
7. A few boxes in each section should be selected at random and the contents should be compared with the description on the label to confirm that the contents have not been changed/removed. Then the seal should be replaced. (1½)
8. The count controller (and assistants) should ...
 - Walk through the warehouse once the count is completed and make sure that all items have been marked twice. (1½) / Random checks. (1½)
 - Examine the inventory sheets to make sure that first and second counts are the same and agree with the quantities recorded on the perpetual inventory system; if there is one. (1½)
 - Instruct the count teams responsible for sections where discrepancies are identified to recount the inventory items in question. (1½)
9. The count controller should obtain the numbers of the last goods received note, invoice, delivery note and goods returned note used up to the date of the inventory count. (1½)
10. No despatches of inventory should take place on the date of the inventory count. (1½)
11. Any inventory received after the count has begun should be stored separately in the receiving bay, until the count is completed and must not be put into the stores. This inventory must be counted and added to the inventory sheets after the count is complete. (1½)
12. The counters responsible for the count sheets should draw lines through the blank spaces on all inventory sheets, and sign each count sheet and all the alterations. (1½)

13. The inventory controller should check that the procedure has been carried out and should sequence test the inventory sheets to ensure that all sheets are present. (1½)
14. Variations should be counted again and authorised before adjusting the records. (1½)
(1½ marks for each valid point to the max of 18 marks)
(½ mark for a correct presentation)

Comments

Internal controls and procedures that should be in place during the year-end inventory count. These internal controls are just as important as those that should be in place as part of the planning and preparation for the count. If the count is not properly planned and communicated, there is a very good possibility that the actual count will not be effective.

2.4 Internal controls that management should design and implement to ensure that only valid new employees are added to the masterfile and that only valid changes are made to the employee masterfile.

Reference: Jackson & Stent (2016: 13/16 – 13/18)

1. The details of each employee to be updated on the employee masterfile, should be recorded on a hardcopy masterfile amendment form (MAF). (1½)
2. MAFs should be pre-printed sequenced (1½) and designed in terms of sound document design principles. (1½)
3. The MAF should be signed by two senior employees (e.g. the human resource manager and factory manager) (1) after checking the details against the supporting documentation. (½)
4. Write access to the employee masterfile should be restricted to a specific member of the human resource section (1) through user IDs and passwords. (½)
5. All masterfile amendments should be automatically logged by the system on sequenced logs (1), and there should be no write access to the logs. (½)
6. In order to enhance the accuracy and completeness of the keying in of the masterfile amendments and to detect invalid conditions, screen aids and program (automated) checks should be implemented (1½).
7. Screen formatting and related features:
 - Minimum keying in of information. (1½)
 - A drop-down list for allocating an employee to a cost centre, department or section. (1½)
 - Screen formatting, screen looks like MAF, screen dialogue. (1½)

(Limited to 1½ marks)
8. Programme checks: changing the data of an existing employee:
 - No write access, for example to identity number field, income tax number (1½)
 - Verification/matching checks of employee number (incorrect number, no amendment). (1½)
 - Minimum entry for example employee number brings up all the necessary data. (1½)

(Limited to 1½ marks)

9. The logs of masterfile amendments should be reviewed by someone independent of the employees who authorised the amendment, for example, the accountant. (1½)
10. The sequence of logs themselves should be checked and any missing logs should be followed up by a senior person, for example a human resource manager. (1½)
11. Each employee amendment on the log should be checked to confirm that it is supported by a properly authorised MAF; and that the details entered are correct. (1½)
12. The MAFs should be sequence checked against the log to confirm that all MAFs have been entered. (1½)

(1½ marks for each valid point to the max of 9 marks)
(½ mark for correct presentation)

Comments

Internal controls to prevent unauthorised changes to the masterfile are very important to any organisation and applicable to all the business cycles. You only need to study these controls once and then you would be able to apply them to any business cycle.

2.5 Weakness in credit sales

Reference: Jackson & Stent (2016: 10/10 – 10/13)

| Function | Weaknesses |
|----------|--|
| 1 | <p>1.1 The order clerk does not check the order against the approved customer list before accepting the order.</p> <p>1.2 The ISO is not compared to the order by an independent employee/supervisor to ensure accuracy.</p> <p>1.3 The order clerk does not sign the ISO to confirm performance of the above procedure.</p> <p>1.4 The credit limit is not checked before the order is approved.</p> <p>Limited to one weaknesses</p> |
| 2 | <p>2.1 The warehouse clerk does not initial the picking slip for each item that is picked.</p> <p>2.2 There is no supervisor/warehouse foreman who performs checks to ensure that picked goods are supported by picking slips.</p> <p>2.3 The warehouse clerk does not compare the goods to picking slips before sending it to dispatch.</p> <p>2.4 The warehouse clerk does not prepare delivery notes before sending them to dispatch.</p> <p>Limited to one weakness</p> |

| Function | Weaknesses |
|----------|---|
| 3 | <p>3.1 The dispatch clerk does not compare the goods to the picking slip and delivery note.</p> <p>3.2 Delivery staff do not supervise the loading of the delivery vehicle.</p> <p>3.3 There is no security check at the gate where the goods are compared to the delivery note – the vehicle leaves directly for delivery.</p> <p>Limited to one weakness</p> |
| 4 | <p>4.1 The customers are not provided with copies of delivery notes to sign and copy to retain when the goods are delivered.</p> <p>4.2 The invoice is generated before a customer-signed delivery note is received.</p> <p>Limited to one weakness</p> |

(1½ for each valid weakness to a maximum of 6 marks)
(1 mark for communication, logic, structure and presentation of table)

Comments

In order to point out the weaknesses, you should be able to identify internal controls that could be implemented to mitigate the risks associated with a specific function in a business cycle.