

# Tutorial letter 101/3/2014

## CORPORATE GOVERNANCE IN ACCOUNTANCY

### AUE2602

**Semesters 1 & 2**

**Department of Auditing**

**IMPORTANT INFORMATION**

This tutorial letter contains important  
information about your module.

BAR CODE

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# 1 INTRODUCTION

Dear Student

It gives us great pleasure to welcome you as an AUE2602 student in the Department of Auditing. We, as lecturers, are at your disposal and will gladly assist you in your studies. Be assured of our willingness to support you with advice during your studies.

You will receive a number of tutorial letters during the semester. A tutorial letter is one way of communicating with you about teaching, learning and assessment. Please read the *my Studies @ Unisa* brochure in combination with this tutorial letter (Tutorial Letter 101) as it gives you an idea of generally important information when studying within our College.

Right from the start we would like to point out that you must read **all the tutorial letters** you receive during the semester **immediately and carefully**, as they always contain important and, sometimes, urgent information.

This tutorial letter contains important information that will assist you in your studies. Please read it carefully and keep it at hand when working through the study material, preparing the assignments, preparing for the examination and addressing questions to your lecturers. We trust that you will benefit from everything that this module has to offer.

## Study material

You will be supplied with the following tutorial material for this module by the Despatch Department:

- Study guide and
- Tutorial Letters

All tutorial material will be mailed to you upon registration. Tutorial matter that is not available when you register will be posted to you as soon as possible, but is also available on *myUnisa*.

To contact the Department of Despatch regarding tutorial material that you have not received, use only the telephone numbers indicated in the booklet entitled ***my Studies @ Unisa*** (which you received with your tutorial material).

You may access the tutorial letters for the modules for which you are registered on the University's online campus, *myUnisa*, at <http://my.unisa.ac.za>. You can also use *myUnisa* to confirm that you have received all the tutorial letters. **It is very important that you access *myUnisa* because important announcements are placed there during the semester that will assist you in the preparation of the examinations.**

**Note:** Some of the tutorial matter may not be available when you register. Tutorial matter that is not available when you register will be posted to you as soon as possible. When you register, you will also receive an inventory letter containing information about your tutorial matter. See also the booklet entitled: ***my Studies @ Unisa*** (which you received with your tutorial matter).

## 2 PURPOSE OF AND OUTCOMES FOR THE MODULE

### 2.1 Purpose

The purpose of this module is stated in the “Introduction and overview” in your study guide.

### 2.2 Outcomes

For the learning outcomes of this module we refer you to the different topics in your study guide for this module. In topic 1 you will also find an overview of the module and we also explain our teaching strategy and how the study guide should be used to guide you through the study material.

During the semester you should:

- work through your study material, make summaries and complete the “do” activities.
- answer the questions contained in Tutorial Letter 102 and compare your answers with the suggested solutions contained in Tutorial Letter 103.
- complete and submit assignment 01 (compulsory assignment for examination admission) and assignment 02 **before the due dates** and complete the self evaluation assignment. All the compulsory assignments and the self evaluation assignment are included in this tutorial letter.
- prepare yourself for the examination (for examination preparation and technique refer to the *my Studies @ Unisa* brochure).

All students will receive the solutions to the assignments, even if they do not submit their assignments.

## 3 LECTURER(S) AND CONTACT DETAILS

### 3.1 Lecturers

#### Lecturers for AUE2602

The lecturers responsible for this module, and to whom you should direct your enquiries, are:

Ms L Grebe

E-mail: AUE2602@unisa.ac.za

Tel: 012 429 4994/ +27 12 429 4994

Ms N Coetzee

E-mail: AUE2602@unisa.ac.za

Tel: 012 429 4944/ +27 12 429 4944

**PLEASE NOTE:** Personal appointments should be arranged beforehand.

**Always have your student number and module code ready when you contact the university!!!**

### 3.2 Department

#### Department of Auditing:

If you wish to write to us, letters should be addressed to:  
 The Module leader: AUE2602  
 Department of Auditing  
 PO Box 392  
 UNISA  
 0003

#### Secretary:

Tel: 012 429 2629/ +27 12 429 2629

#### Departmental Webpage:

<http://www.unisa.ac.za/Default.asp?Cmd=ViewContent&ContentID=194>

The Department of Auditing is situated on the 2nd level of the AJH van der Walt building on the main campus in Pretoria and our telephone number is +27 12 429 4707. Professor HJ Theron is the chair of the department.

### 3.3 University

If you need to contact Unisa about matters not related to the content of this module, please consult the brochure *my Studies @ Unisa*, which you should have received with your study material. In this document you will find the contact details of various administrative departments. If you did not receive this document and have access to the Internet, you can find it on *myUnisa* under the 'Resources' option. Remember to always have your student number ready when making an enquiry.

**Please ensure that you contact the correct section or department for each enquiry** as this will result in a speedy resolution of the enquiry.

The contact details are:

#### E-mail addresses:



- [info@unisa.ac.za](mailto:info@unisa.ac.za) for general enquiries
- [study-info@unisa.ac.za](mailto:study-info@unisa.ac.za) for application and registration related enquiries (prospective and registered students)
- [international@unisa.ac.za](mailto:international@unisa.ac.za) for international students (registration-related enquiries)
- [assign@unisa.ac.za](mailto:assign@unisa.ac.za) for assignment enquiries
- [exams@unisa.ac.za](mailto:exams@unisa.ac.za) for examination enquiries
- [despatch@unisa.ac.za](mailto:despatch@unisa.ac.za) for study material enquiries
- [finan@unisa.ac.za](mailto:finan@unisa.ac.za) for student account enquiries
- [gaudeamus@unisa.ac.za](mailto:gaudeamus@unisa.ac.za) for graduation enquiries
- [myUnisaHelp@unisa.ac.za](mailto:myUnisaHelp@unisa.ac.za) for assistance with myUnisa

- [myLifeHelp@unisa.ac.za](mailto:myLifeHelp@unisa.ac.za) for assistance with myLife email accounts
- [aegrotats@unisa.ac.za](mailto:aegrotats@unisa.ac.za) for aegrotat exams
- [remark@unisa.ac.za](mailto:remark@unisa.ac.za) for remarking of papers
- [recheck@unisa.ac.za](mailto:recheck@unisa.ac.za) for rechecking of papers
- [condiscipuli@unisa.ac.za](mailto:condiscipuli@unisa.ac.za) for fellow student names
- [counselling@unisa.ac.za](mailto:counselling@unisa.ac.za) for student counselling and career development
- [vospresc@unisa.ac.za](mailto:vospresc@unisa.ac.za) for enquiries about prescribed books

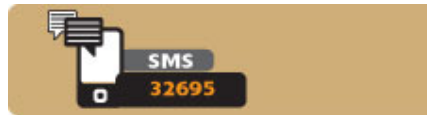
## Library

The *my Studies @ Unisa* booklet, which is part of your registration package, lists all the services offered by the Unisa library.

General library catalogue enquiries  
 Library Web co-coordinator  
 Inter-library loans enquiries  
 Enquiries about subject databases  
 Library information desk  
 Enquiries about training presented  
 by the library  
 Send a question to the library staff

[bib-oasis@unisa.ac.za](mailto:bib-oasis@unisa.ac.za)  
[bib-web@unisa.ac.za](mailto:bib-web@unisa.ac.za)  
[libr-ill@unisa.ac.za](mailto:libr-ill@unisa.ac.za)  
[bib-dbase@unisa.ac.za](mailto:bib-dbase@unisa.ac.za)  
[bib-help@unisa.ac.za](mailto:bib-help@unisa.ac.za)  
  
[bib-oplei@unisa.ac.za](mailto:bib-oplei@unisa.ac.za)  
[bibrefq@unisa.ac.za](mailto:bibrefq@unisa.ac.za)

## SMS numbers:



Send an SMS to 32695 for more information on how to contact Unisa via SMS (only for students within the borders of South Africa). Students will receive an auto response SMS with the various SMS options. This SMS will cost R1.

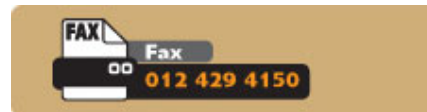
## Students can also SMS enquiries directly to:

43578 for applications and registrations\*  
 43584 for assignments\*  
 43584 for examinations\*  
 43579 for study material\*  
 31954 for student accounts\*  
 43582 for myUnisa and myLife\*

The cost per SMS is 50c.

\* The SMS number is only for students residing in South Africa. International students are urged to make use of the e-mail address [info@unisa.ac.za](mailto:info@unisa.ac.za).

## Fax number:



Fax enquiries to +27 (0)12 429 4150

Online address <http://my.unisa.ac.za>  
 Unisa website <http://www.unisa.ac.za>

**Other means of contacting the university are:**

Physical address      University of South Africa  
                                  Preller Street  
                                  Muckleneuk  
                                  Pretoria  
                                  City of Tshwane

Postal address         University of South Africa  
                                  PO Box 392  
                                  UNISA  
                                  0003

**Note: Lecturers cannot assist you with registration, payments, module codes, examinations, etc. These are administrative issues which should be discussed with the relevant sections.**

## **4      MODULE-RELATED RESOURCES**

The resources at your disposal are classified into the following two categories:

### **4.1    Prescribed books**

The following is a list of the prescribed books for this module. NB: all three books are essential to pass this module.

- Jackson RDC & Stent WJ. 2012. *Auditing notes for South African students*. 8<sup>th</sup> edition. Durban: LexisNexis.
- LexisNexis. *Auditing: Legislation and Standards*. First edition. Lexis Nexis.
- Gowar H & Jackson RDC. 2014. *Graded Questions on Auditing 2014*. Durban: LexisNexis.

Please consult the list of official booksellers and their addresses listed in the ***my Studies @ Unisa*** brochure.

Prescribed books are available at the university's official booksellers. If you have any difficulties in obtaining books from these bookshops, please contact the Prescribed Book Section **as soon as possible** at telephone number +27 12 429 4152 or e-mail address: [vospresc@unisa.ac.za](mailto:vospresc@unisa.ac.za).

Information on the use of and the sources of information available in the Unisa Library are detailed in the ***my Studies @ Unisa*** brochure.

### **4.2    Recommended books**

There are no recommended books for this module.

### **4.3    Electronic Reserves (e-Reserves)**

There are no electronic reserves prescribed for this module.

## 5 STUDENT SUPPORT SERVICES FOR THE MODULE

For student support services you are referred to the *my Studies @ Unisa* brochure.

### UNISA LIBRARY LOGIN

You will be required to provide your login details, i.e. your student number and your *myUnisa* password, in order to access the library's online resources and services.

This will enable you to ...

- view or print your electronic course material
- request library material
- view and renew your library material
- use the library's e-resources

### Requesting library books

Students are expected to purchase their own copies of the **prescribed books** listed in Tutorial Letter 101. A limited number of copies are housed in the Unisa Libraries, subject to each branch library's lending regulations. Problems experienced in obtaining copies from booksellers should be directed to the Prescribed Book Section at e-mail [vospresc@unisa.ac.za](mailto:vospresc@unisa.ac.za) or telephone +27 12 429 4152.

### Electronic requests

The preferred way of requesting **recommended or additional** books is **online** via the library's catalogue.

Go to <http://oasis.unisa.ac.za>, or  
via *myUnisa*, go to <http://my.unisa.ac.za> > Login > Library > Library catalogue, or  
for mobile access, go to <http://oasis.unisa.ac.za/airpac> (AirPAC).

### Telephonic book requests

This can be done on +27 (0)12 429 3133. Please supply the reservation order number (RON).

## 6 MODULE-SPECIFIC STUDY PLAN

You are responsible to pace yourself. The volume of work is enormous and therefore bear this in mind when planning your studies. Spread your studies evenly throughout the semester.

Also use the *my Studies @ Unisa* brochure for general time management and planning.

## 7 MODULE PRACTICAL WORK AND WORK-INTEGRATED LEARNING

There is no practical work for this module.



## 8 ASSESSMENT

### 8.1 Assessment plan

#### Assignments

Assignments are seen as part of the learning material for this module. As you do the assignments, study the reading texts, consult other resources, discuss the work with fellow students or tutors or do research, you are actively engaged in learning.

You are required to **submit the compulsory assignment 01 before the due date** to obtain **admission to the examination**. Admission will be obtained by submitting compulsory assignment 01 and not by the marks you obtain for it.

The marks you obtain for assignment 01 and assignment 02 will contribute towards your year mark.

#### Commentaries and feedback on assignments

The solution to assignment 01 will be provided to you in Tutorial Letter 201 which will only be distributed after the due date of assignment 01. The solution to assignment 02 will be sent to you in Tutorial Letter 202 which will only be distributed after the due date of assignment 02.

As soon as you have received the commentaries, please check your answers. The assignments and the commentaries on these assignments constitute an important part of your learning and should help you to be better prepared for the next assignment and the examination. The solution and commentary on the self assessment assignment will be included in Tutorial Letter 202 which will enable you to mark your assignment.

#### Year mark

The marks that you obtained for assignment 01 and assignment 02 will contribute towards your year mark for the module.

Your year mark contributes 10% towards your final examination mark. A student requires a final mark of 50% to pass a module. The final mark is calculated as follows:

5% x mark obtained for compulsory assignment 01 plus

5% x mark obtained for compulsory assignment 02 plus

90% x mark obtained in the examination (sub-minimum of 40%)

The sub-minimum of 40% implies that if you obtain a mark of less than 40% in the examination, your year mark will not be taken into account.

Please ensure that your assignment 01 and assignment 02 reach the University **before the due date – late submission of these assignments will result in you not receiving marks that count towards your year mark.**

**THUS:**

**TO GET ADMISSION TO THE EXAMINATION, YOU MUST SUBMIT ASSIGNMENT 01 BEFORE OR ON THE DUE DATE**

**YOUR MARKS FOR BOTH ASSIGNMENTS 01 AND 02 WILL BE USED TO DETERMINE YOUR YEAR MARK**

## **8.2 General assignment numbers**

Assignments are numbered consecutively per module, starting from 01. Only Arabic numerals are used, for example: Assignments 01, 02, 03, and so on.

### **8.2.1 Unique assignment numbers**

In addition to the general assignment number (eg 01), each assignment has its **own unique assignment number** (eg 102717). This number must be written on the mark reading sheet or assignment cover page in the designated area.

### **8.2.2 Due dates for assignments**

<b>Assignment</b>	<b>FIRST SEMESTER Due date if you are registered for the first semester</b>	<b>SECOND SEMESTER Due date if you are registered for the second semester</b>
<b>01 (Compulsory)</b>	6 March 2014 Unique number: 745659	28 August 2014 Unique number: 875754
<b>02</b>	14 April 2014 Unique number: 870945	15 September 2014 Unique number: 896762

## **8.3 Submission of assignments**

You may submit written assignments and assignments done on mark reading sheets either by post or electronically via *myUnisa*. Assignments may **not** be submitted by fax or e-mail. For detailed information and requirements as far as assignments are concerned, see the brochure, ***my Studies @ Unisa***, that you received with your study material.

**Note: Assignment 02 can only be submitted in PDF format on *myUnisa*.**

To submit an assignment via *myUnisa*:

- Go to *myUnisa*.
- Log in with your student number and password.
- Select the module from the orange bar.
- Click on assignments in the left-hand menu.
- Click on the assignment number you want to submit.
- Follow the instructions on the screen.

Please ensure that your assignment 01 reaches the University **before the due date – late submission of assignment 01 will result in you not being admitted to the examination.**

**PLEASE NOTE:** You must submit assignment 01 in order to be admitted to the examination while both assignments 01 and 02 must be submitted for purposes of determining your year mark. No extension of the due dates can be given by the lecturers for these assignments.

### General remarks

For enquiries about assignments (eg whether or not the University has received your assignment or the date on which an assignment was returned to you) please refer to the contact information in 3.3 of this tutorial letter. You may also find this information on *myUnisa*. To go to the *myUnisa* website, start at the main Unisa website, <http://www.unisa.ac.za>, and then click on the “login to *myUnisa*” link under the *myUnisa* heading on the screen. This should take you to the *myUnisa* website. You can also go there directly by typing in <http://my.unisa.ac.za>.

Assignments should be addressed to:

The Registrar  
PO Box 392  
UNISA  
0003

### Completion of assignment cover

**PLEASE NOTE:** Make sure that you read the instructions on the assignment cover carefully before completing it. Make sure that you complete the cover **correctly**. Please make sure that the following information appears on the COVER of your assignment.

Name.  
Address (and postal code).  
Student number.  
Subject code (e.g. AUE2602).  
**Correct** assignment number.  
Correct unique assignment number (applicable only to assignments 01 and 02).  
Label with bar code.

## 8.4 Assignments

### 8.4.1 Semester 1: Compulsory assignment 01

#### Instructions:

- (1) Write the correct unique assignment number in the six blocks provided on the mark reading sheet.
- (2) Write the ordinary assignment number (01) in the two blocks provided on the mark reading sheet.
- (3) Consult ***my Studies @ Unisa*** for an example of how a computer mark reading sheet should be filled in.
- (4) If you do not follow these instructions, the computer will reject your answer sheet and it will be returned to you unmarked. Also consult: ***my Studies @ Unisa*** when you answer multiple-choice assignments.

## Special information regarding the answering of this assignment

- (1) This assignment consists of 20 multiple choice questions.
- (2) This assignment covers topics 1 to 3 of the study guide.

**ASSIGNMENT 01: MULTIPLE-CHOICE QUESTIONS  
(compulsory)**

**UNIQUE ASSIGNMENT NUMBER FOR THE FIRST SEMESTER:  
745659**

**DATE OF SUBMISSION**

**First semester: 6 March 2014**

### QUESTION 1

**30 marks**

#### REQUIRED

Select for each question only **ONE** alternative that you consider to be the most correct and then mark on *myUnisa* or on the mark reading sheet the digit that corresponds to the digit of the alternative which you have selected as your answer. Answer the sub-sections of this question in numerical sequence, for example, as follows:

1. 1
2. 3

(1½ marks per question)

1. Select the best alternative to complete the following sentence:

The King III Report and Code on Governance for South Africa is based on the principle of apply or explain; which means that ...

- 1 companies must adhere to the rules and principles, and if they don't they will be punished.
  - 2 the principles and practices recommended by King III should be the focus of companies' corporate governance.
  - 3 the directors of a company can decide that to comply with certain principles and practices might not be in the best interest of the company, and may therefore provide explanations for not applying these principles and practices.
  - 4 all companies must always apply the King III principles and practices.
2. Which one of the following alternatives will **not** lead to the financial director being held liable as per the Companies Act 71 of 2008, section 77?
    - 1 Failing to disclose to the board a personal financial interest.

- 2 Failing to act in good faith and for a proper purpose.
  - 3 Failing to act in the best interest of the company.
  - 4 Failing to inform the board of environmental law changes.
3. After incorporation of the company, the board must appoint the audit committee members within how many days?
- 1 30 business days.
  - 2 40 business days.
  - 3 50 business days.
  - 4 60 business days.
4. Which one of the following alternatives is a function of the **remuneration committee**?
- 1 To assist with the process of identifying suitable members of the board.
  - 2 To assist the board in setting and administering remuneration policies.
  - 3 To consider the risk management policy, and to plan and monitor the risk management process.
  - 4 To set and administer remuneration policies and ensure these policies are being implemented by the board.

**The following scenario pertains to questions 5 to 9:**

Cluedo Limited is a large company that manufactures and sells board games. The board of directors meets as and when required, but at least once a year.

The members of the board of directors are:

Colonel Mustard	-	Chairman and independent non-executive director
Dr Black	-	Chief Executive Officer (CEO)
Miss Scarlett CA(SA)	-	Financial Director
Mrs White	-	Operations Director
Mr Green	-	Independent non-executive director
Prof Plum	-	Independent non-executive director

5. Which one of the following statements is **false**?
- 1 The chairman of the board, Colonel Mustard, may not be a member of the audit committee.
  - 2 Dr. Black may be a member of the remuneration committee.
  - 3 Colonel Mustard may be a member of the risk committee.

4 Dr. Black may be a member of the audit committee.

6. Select the correct alternative to complete the following sentence:

Cluedo Ltd's board of directors may not comply with principle 6.2 of the King III Report, because...

- 1 each of the directors does not have an in-depth knowledge of all of the laws and regulations applicable to the company.
- 2 collectively, the directors may not have an understanding of the effect of laws and regulations on the company.
- 3 the company secretary, who has a duty to assist the board in fulfilling their duties regarding the laws and regulations, is not a member of the board.
- 4 the CEO, Dr. Black, is not a qualified chartered accountant.

7. Select the correct alternative to complete the following sentence:

Cluedo Ltd does not comply with principle 2.18 of the King III Report relating to the composition of the board. The board of directors should comprise of a balance of power with...

- 1 a majority of non-executive directors.
- 2 a majority of directors, of which the majority must be non-executive directors.
- 3 a majority of executive directors.
- 4 a majority of non-executive directors, of which the majority must be independent.

8. The chairman of the board of directors must be:

- 1 The CEO of the company.
- 2 A previously disadvantaged person.
- 3 The CEO of the company, or an independent non-executive director who then reports to the CEO.
- 4 An independent non-executive director.

9. The board of directors must meet at least:

- 1 Once a year.
- 2 Every four months.
- 3 Four times per annum.
- 4 Twice a year.

10. Select from the under-mentioned alternatives the **incorrect** alternative with regard to the characteristics of internal control.

- 1 Internal controls are not affected by changes in conditions, and therefore compliance with procedures will not deteriorate.
- 2 Internal control is a process, namely a combination of systems, policies and procedures designed, implemented and maintained to address the risks of running a business.
- 3 The potential of human error due to carelessness, distraction, mistakes of judgment and the misunderstanding of instructions is a limitation of internal control.
- 4 The board of directors has overall responsibility and accountability for the internal control of a business.

11. Select the **best** alternative to complete the following statement.

The term “**risk assessment**” as part of **internal control** may refer to ...

- 1 the performing of tests of control to determine the effectiveness of the system of control.
- 2 the audit work performed by the outgoing auditor, determining the risk of material misstatement.
- 3 assessing the likelihood and frequency of risks identified and estimating the potential impact of the risk.
- 4 estimating the amount of financial losses should a specific risk occur and determining the recovery actions to be taken.

12. Select the alternative which **best** completes the following sentence:

Stakeholders can be considered to be ...

- 1 Any group that can affect, or be affected by the company.
- 2 The community in which the company operates.
- 3 The shareholders of the company.
- 4 Any group that can affect the company’s financial performance, or be affected by the company’s financial performance.

13. Select the alternative which **best** completes the following statement.

The term “computerised environment” refers to any particular and unique combination of ...

- 1 computerised business cycles.
- 2 hardware, software and personnel.

3 data centers housing servers, routers, modems etc.

4 general and application controls.

14. Select the most **correct** alternative to complete the following sentence:

The internal control objectives relevant to the reliability of an entity's financial reporting are ...

1 the components of internal control.

2 ethical leadership and corporate citizenship.

3 occurrence, existence and rights and obligations.

4 validity (occurred and are authorised), accuracy and completeness.

15. Which one of the following management assertions is **at risk** when the theft of inventory from the warehouse goes undetected, resulting in the inventory figure in the financial statements being overstated?

1 Existence.

2 Completeness.

3 Cut-off.

4 Rights and obligations.

16. Select the **correct** alternative to complete the following statement:

The "occurrence" management assertion means that ...

1 all assets, liabilities, transactions or events, which should have been recorded, have been recorded.

2 amounts and other data relating to recorded transactions and events have been recorded appropriately.

3 a transaction or event which has been recorded, took place and pertains to the entity.

4 transactions and events have been recorded in the proper accounts.

17. Which one of the following alternatives is **not** an example of a type of control activity?

1 Performance review.

2 Comparison and reconciliation.

3 Employment practices.

4 Segregation of duties.



18. Which one of the following internal controls is **not** an example of a **physical access control** in a computerised environment?
- 1 Users should provide unique user ID's and unique passwords to gain access to the system.
  - 2 Entry and exit points to the data centre should be limited to one and may be under closed circuit TV surveillance.
  - 3 The building in which the equipment that runs the computerised system is housed (for example the servers and CPU), should have a dedicated room to which only a dedicated number of personnel should have access.
  - 4 Company personnel other than IT personnel should not need to enter the data centre and access should be controlled.
19. Which one of the following control activities is an example of **isolation of responsibility**?
- 1 An independent employee should regularly reconcile the debtors' ledger to the debtors control account in the general ledger.
  - 2 Access to the inventory warehouse should be controlled by means of a turnstile gate and a security guard checking goods leaving the warehouse.
  - 3 The order clerk in the sales department of a company should issue the internal sales order (ISO), the warehouse clerk should perform the picking of the goods on the order in the warehouse and the dispatch clerk should dispatch the goods for delivery to the customer.
  - 4 The company's production foreman should sign the schedule of overtime before he hands it to the wages clerk for it to be calculated and paid.
20. Which one of the following alternatives is **not** an **input application control** to ensure accuracy in a computerised environment?
- 1 Alpha-numeric format checks.
  - 2 Access control.
  - 3 Adequate training of programme users.
  - 4 Reasonableness and limit tests.

---X---

#### 8.4.2 Semester 1: Compulsory assignment 02

##### Instructions:

- (1) Consult **my Studies @ Unisa** for instructions on how to submit written assignments.

##### Special instruction regarding the answering of this assignment

- (1) This assignment covers all the topics of the study guide.

- (2) All the questions should be completed.
- (3) Only selected questions will be marked.

## **ASSIGNMENT 02: ESSAY TYPE QUESTIONS**

**UNIQUE ASSIGNMENT NUMBER FOR THE FIRST SEMESTER:  
870945**

**DATE OF SUBMISSION**

**First semester: 14 April 2014**

### **QUESTION 1**

**50 marks**

You are part of the internal audit team tasked to perform the internal audit of Airosmith Limited, for the year ended 31 January 2014. Airosmith Limited is a multi-million rand entity which trades in the music industry and sells CDs only on credit to account holders (debtors). The entity has branches all around South Africa. Mr. S Tyler is the cashier responsible for the receipt of payments from account holders (debtors) of the Benoni branch of Airosmith Limited. He reports to the financial manager, Mr. J Perry.

#### **Internal controls in the “recording of receipts” section**

During the current year under audit, Mr. S Tyler stole some cash received from debtors. As a result the total of the **day’s recorded cash** did not agree with the **actual cash on hand**. The management of Airosmith Limited requested that you advise them on the internal controls that can be implemented in the manual **“recording of cash receipts from debtors”** to mitigate or eliminate the risk that cash deposits from debtors may never be recorded or may not be recorded timeously.

#### **Governance of risk**

The management of Airosmith Limited requested that you advise them on the governance of risk in the company, since the theft of cash by Mr. S Tyler raised concerns about the general effectiveness of the company’s system of control and governance of risk.

#### **Purchases CD inventory**

For the past 30 years, the ordering function was performed by Mr. T Hamilton who retired during the current year under audit. In his place, the entity employed two of its newly qualified graduates as the order clerks. For the entire 30 years that Mr. T Hamilton was employed, there was never a complaint about the quality, quantity or description of CDs purchased. He had established good relations with suppliers and knew re-order levels. There is concern that the inexperience of the new intakes could result in mistakes that may have a major impact on company profit.

#### **Internal control over inventory**

At the recent board meeting, the chairperson noted discrepancies in quarterly results. It was noted that inventory balances for the first quarter decreased by 50% whereas total revenue and debtors remained fairly stable. The chairperson concluded that regular inventory counts should be performed as part of good internal controls over inventory.

**REQUIRED****Marks**

1. Describe the **internal** controls that management should implement in the manual accounting system of “**recording of cash receipts from debtors**” to mitigate or eliminate the risk that payments received from debtors may never be recorded or may not be recorded timeously. **(10)**
2. Advise the management of Airosmith Limited on good governance of risk in accordance with the King III report. Refer to the following aspects in the risk process to indicate **who is responsible** and provide a **brief explanation** of their responsibilities:
  - a) Overall governance of risk.
  - b) Designing, implementing and monitoring the risk management plan.
  - c) Monitoring the risk management process.
  - d) Performing an objective assessment of the effectiveness of risk management.

**Use the following format:**

ASPECT	WHO IS RESPONSIBLE	RESPONSIBILITIES
a) Overall governance of risk.		
b) Designing, implementing and monitoring the risk management plan and policy.		
c) Monitoring risk management process.		
d) Performing an objective assessment of the effectiveness of risk management.		

**(12)**

3. Describe **seven (7) risks** that could be identified in the **ordering** function of Airosmith Limited. **(10)**
4. Describe the steps that the management of Airosmith Limited must follow when conducting an **inventory count**. Limit your answer to **conducting the count** only. **(18)**

---X---

### **8.4.3 Semester 2: Compulsory assignment 01**

#### **Instructions:**

- (1) Write the correct unique assignment number in the six blocks provided on the mark reading sheet.

- (2) Write the ordinary assignment number (01) in the two blocks provided on the mark reading sheet.
- (3) Consult **my Studies @ Unisa** for an example of how a computer mark reading sheet should be filled in.
- (4) If you do not follow these instructions, the computer will reject your answer sheet and it will be returned to you unmarked. Also consult: **my Studies @ Unisa** when you answer multiple-choice assignments.

**Special instruction regarding the answering of this assignment**

- (1) This assignment consists of 20 multiple choice questions.
- (2) This assignment covers topics 1-2 of the study guide.

**ASSIGNMENT 01: MULTIPLE-CHOICE QUESTIONS  
(compulsory)**

**UNIQUE ASSIGNMENT NUMBER FOR THE SECOND SEMESTER:  
875754**

**DATE OF SUBMISSION**

**Second semester: 28 August 2014**

**QUESTION 1**

**30 marks**

**REQUIRED**

Select for each question only **ONE** alternative that you consider to be the most correct and then mark on *myUnisa* or on the mark reading sheet the digit that corresponds to the digit of the alternative which you have selected as your answer. Answer the sub-sections of this question in numerical sequence, for example, as follow:

1. 1
2. 3

(1½ marks per question)

1. The philosophy of the King III Report revolves around:
  - 1 Alternative dispute resolution (ADR) and risk-based internal audit.
  - 2 Sustainability.
  - 3 Leadership, sustainability and corporate citizenship.
  - 4 Shareholders and remuneration.

2. Select the **correct** alternative to complete the following sentence:

The King III Report and Code on Governance for South Africa (King III Report) is based on the principle of ...

- 1 the Companies Act, no 71 of 2008.
  - 2 “apply or explain”.
  - 3 “comply or explain”.
  - 4 “comply or else”.
3. Which one of the following alternatives is **not** one of the ethical values on which decisions and actions of directors should be based on?
- 1 Conscience.
  - 2 Responsibility.
  - 3 Transparency.
  - 4 Accountability.
4. The chairman of the board of directors must be:
- 1 An independent non-executive director.
  - 2 A previously disadvantaged person.
  - 3 The CEO of the company, or an independent non-executive director who then reports to the CEO.
  - 4 The CEO of the company.
5. Which one of the following alternatives represents the “**triple bottom line**” concept on which company reporting should occur?
- 1 Economic aspects, environmental aspects, and social aspects.
  - 2 Economic aspects, political aspects and environmental aspects.
  - 3 Environmental aspects, health and safety aspects and financial aspects.
  - 4 Educational aspects, social aspects and financial aspects.
6. Select the **incorrect** statement regarding the number of times per annum the various committees should meet.
- 1 The board of directors must meet at least every 4 months.
  - 2 The risk committee must meet at least every 6 months.

- 3 The audit committee must meet at least twice a year.
  - 4 The remuneration committee's number of meetings per annum are not specified in the King III Report.
7. The **minimum** number of members that an audit committee must have is?
- 1 6 members.
  - 2 2 members.
  - 3 3 members.
  - 4 5 members.
8. Which of the following companies are required by the Companies Act to have an audit committee?
- i) State-owned companies
  - ii) Public companies
  - iii) Private companies
  - iv) A public company that is a subsidiary of a holding company which has an audit committee, but who will not perform the functions of an audit committee within the subsidiary.
- 1 Options (i) and (ii)
  - 2 Options (ii) and (iii)
  - 3 Options (i), (ii) and (iv)
  - 4 All the options.
9. Attending to the risks involved where a bank offers the latest computer based services, such as electronic fund transfers (EFT), is an example of the governance of:
- 1 Internal auditing.
  - 2 Information technology.
  - 3 Risk.
  - 4 Stakeholder relationships.
10. Who is ultimately responsible to ensure that the company complies with applicable laws and regulations?
- 1 The board of directors.
  - 2 The audit committee.
  - 3 The risk committee.
  - 4 All the personnel of the company.

11. Which one of the following alternatives is **not** one of the **five components** of internal control according to the framework provided by ISA 315 of the auditing standards?
- 1 Control activities.
  - 2 Information systems.
  - 3 Monitoring of controls.
  - 4 Segregation of duties.
12. Which one of the following statements regarding internal control is **incorrect**?
- 1 Monitoring of the internal control process is all about determining whether the control activities are actually taking place.
  - 2 Control activities are actions which are carried out to achieve the entity's internal control objectives.
  - 3 The control environment is about technical competence and ethical commitment.
  - 4 Internal control procedures are designed to address and limit potential risks.
13. Select from the under-mentioned alternatives the **incorrect** alternative with regard to the characteristics of internal control.
- 1 Internal controls are not affected by changes in conditions, and therefore compliance with procedures will not deteriorate.
  - 2 The potential of human error due to carelessness, distraction, mistakes of judgment and the misunderstanding of instructions is a limitation of internal control.
  - 3 The board of directors has overall responsibility and accountability for the internal control of a business.
  - 4 Internal control is a process, namely a combination of systems, policies and procedures designed, implemented and maintained to address the risks of running a business.
14. Which one of the following control activities in a payroll business cycle is an example of **segregation of duties**?
- 1 Before the batch of clock cards is transferred to payroll preparation, the section head should check calculations and authorise overtime.
  - 2 The appointment or dismissal of employees should be signed by the section head and counter signed by the section manager after reference to the budget.
  - 3 Any unclaimed wage packages should be retained by the paymaster who should lock them away.

- 4 Wage packets should be made up by two wage department members, whilst the wages pay out should be conducted by the independent paymaster and the section foreman.

15. Select the alternative which **best** completes the following sentence:

All masterfile amendments in a computerised environment should be automatically logged by the computer on sequenced logs and should later be sequence checked against the log to satisfy the ..... assertion.

- 1 Occurrence.
- 2 Accuracy.
- 3 Completeness.
- 4 Authorisation.

16. Which one of the following internal controls is **not** an example of a **physical access control** in a computerised environment?

- 1 The building in which the equipment that runs the computerised system is housed (for example the servers and CPU), should have a dedicated room to which only a dedicated number of personnel should have access.
- 2 Company personnel other than IT personnel should not need to enter the data centre and access should be controlled.
- 3 Entry and exit points to the data centre should be limited to one and may be under closed circuit TV surveillance.
- 4 Users should provide unique user ID's and unique passwords to gain access to the system.

17. Which one of the following management assertions is **at risk** when the theft of inventory from the warehouse goes undetected, resulting in the inventory figure in the financial statements being overstated?

- 1 Cut-off.
- 2 Existence.
- 3 Rights and obligations.
- 4 Completeness.

18. Select the alternative which **best** completes the following sentence:

The financial manager ensures that **all** sales for the financial year are recorded, in order to satisfy himself that ...

- 1 debtors paid their accounts timeously during the financial year.



- 2 the completeness assertion applies and to ensure that revenue is not materially misstated in the financial records of the company.
  - 3 the profit is increased to an acceptable level.
  - 4 the going concern concept is adhered to.
- 19.** Which one of the following alternatives is **not** a factor which the external auditor should consider when assessing whether a risk is a significant risk?
- 1 Significant transactions with related parties.
  - 2 Recent significant economic, accounting or other developments.
  - 3 The complexity of the transactions.
  - 4 The nature, timing and extent of audit procedures.
- 20.** Which one of the following alternatives is **not** an **input application control** to ensure accuracy in a computerised environment?
- 1 Adequate training of programme users.
  - 2 Alpha-numeric format checks.
  - 3 Reasonableness and limit tests.
  - 4 Access control.

---X---

#### **8.4.4 Semester 2: Compulsory assignment 02**

##### **Instructions:**

- (1) Consult ***my Studies @ Unisa*** for instructions on how to submit written assignments.  
**Special instructions regarding the answering of this assignment**

- (1) This assignment covers all the topics of the study guide.
- (2) All the questions should be completed.
- (3) Only selected questions will be marked.

## ASSIGNMENT 02: ESSAY TYPE QUESTIONS

UNIQUE ASSIGNMENT NUMBER FOR THE SECOND SEMESTER:  
896762

DATE OF SUBMISSION

Second semester: 15 September 2014

### QUESTION 1

50 Marks

You are part of the internal audit team tasked to perform the internal audit of Virginia Gym Limited, for the year ended 31 March 2014.

Virginia Gym operates various branches of gyms across the country. Each gym has a shop inside, which sells a variety of healthy food and drinks to gym members. The members can either pay cash, or charge the goods against their accounts.

#### **Computerisation of the credit sales and debtors system.**

The management of Virginia Gym are considering the computerisation of the credit sales and debtors system in order to improve the efficiency of operations and to improve internal controls overall.

#### **Acquisition of equipment**

New gym equipment was stolen from the warehouse in the current year. Management called an emergency meeting where it was decided that new equipment had to be acquired.

#### **Wages**

The entity employs a large number of workers. Complete wage records are kept by the company and the workers each receive a weekly cash wage that is paid out by the pay clerk at a central pay point. Weaknesses exist in the internal controls over unclaimed wages, resulting in financial losses suffered by Virginia Gym.

#### **Governance of risk**

The management of Virginia Gym requested that you advise them on the governance of risk in the company, since one of the employees were caught stealing from the cash till.

### REQUIRED

Marks

1. Describe the **application controls** that Virginia Gym Limited should implement in its computerised system to ensure that only amendments that are authorised, accurate and complete are made to the **debtors' masterfile** in the credit sales accounting system. (13)
2. Advise the management of Virginia Gym Limited on the **internal controls** that should be implemented for the safeguarding of gym equipment acquired in the current year to ensure that there is no repeat of the **theft** incident that occurred. (15)

3. Describe the **internal controls** that should be implemented over **unclaimed wages** at Virginia Gym Limited. (10)
4. Advise the management of Virginia Gym Limited on good governance of risk in accordance with the King III report. Refer to the following aspects in the risk process to indicate **who is responsible** and provide a **brief explanation** of their responsibilities:
- Overall governance of risk.
  - Designing, implementing and monitoring the risk management plan.
  - Monitoring the risk management process.
  - Performing an objective assessment of the effectiveness of risk management.

Use the following format:

ASPECT	WHO IS RESPONSIBLE	RESPONSIBILITIES
a) Overall governance of risk.		
b) Designing, implementing and monitoring the risk management plan and policy.		
c) Monitoring risk management process.		
d) Performing an objective assessment of the effectiveness of risk management.		

(12)

---X---

## 9 OTHER ASSESSMENT METHODS

An examination paper which serves as a self-evaluation assessment is included hereafter.

### Special instructions and remarks regarding the answering of this assessment opportunity

It is advised that you complete this assessment opportunity under examination conditions within two hours without consulting your study material.

After having completed this, you should compare your answers with the key in Tutorial Letter 202. This assessment opportunity **must not** be sent to the University.

## Tutorial material for this assessment opportunity

This assessment opportunity deals with the entire content of this module.

### Purpose of this assessment opportunity

The purpose of this assessment opportunity is to serve as a revision of the study material as a whole and at the same time is an indication of the standard which can be expected in the examination.

### QUESTION 1

50 Marks

Minetech (Pty) Limited is a large company in the mining industry in South Africa. The company intends to list on the Johannesburg Stock Exchange (JSE) in the near future. In order to do so, Minetech has to meet the recommendations of good governance of the King III Report, as compliance is compulsory for companies listed on the JSE.

#### Fraud in the company

Six months ago Minetech appeared in the business news headlines when the financial director was found guilty of defrauding the company of R 2,8 million. This was done by transferring money from the company's bank account via internet banking. The financial director was immediately dismissed.

No physical controls exist to prevent access to the computer onto which the company's internet banking software is loaded. All personnel in the finance department share a single password to gain unlimited access to the bank account.

#### Corporate governance in the company

As a result of the fraud scandal and Minetech's intentions to list on the JSE, the shareholders requested a review of the company's current corporate governance practices with reference to the King III Report recommendations.

The company secretary provided the following schedule of directors and committees:

#### 1. Board of directors

- |                    |  |
|--------------------|--|
| M Lebete           | – Chairman and executive director                              |
| S Gouws            | – Chief executive officer (CEO)                                |
| D Govender         | – Marketing director (an executive director)                   |
| B Langa            | – Human resources director (an executive director)             |
| A Peters           | – Information technology (IT) director (an executive director) |
| H Ally             | – Risk director (an executive director)                        |
| L Pretorius CA(SA) | – Independent non-executive director                           |

1.1 The position of financial director has been vacant for 6 months after the previous director's dismissal. The CEO, S Gouws is in the process of interviewing candidates and will in due course appoint the new financial director.

1.2 The board of directors meets twice a year to accommodate L Pretorius who lives abroad and does not have the time to travel more regularly to South Africa for meetings.

#### 2. Board committees

The company has two board committees; an audit committee and a risk committee.

**2.1 Audit committee**

M Lebete (chairman of the audit committee)  
 L Pretorius CA(SA)  
 A Peters

The audit committee meets twice a year. The internal auditors always attend and take part in these meetings, whilst the external auditors do not attend any of the meetings. A Peters has extensive IT experience and knows Minetech's systems well.

**2.2 Risk committee**

M Lebete (chairman of the risk committee)  
 H Ally

The risk committee knows the risks that the business face and has not identified any new threats that would necessitate a review of the risk management plan and process of the company.

**REQUIRED****Marks****1.1 Comment on the information provided in relation to the requirements of sound corporate governance in terms of King III Report.**

Present your answer under the following headings:

1. Board of directors: composition and appointments (4)
2. Board of directors: meetings (2)
3. Audit committee: composition and appointments (3)
4. Audit committee: meetings (3)
5. Risk committee: composition and appointments (2)
6. General remarks (2)

Both **compliance** and **non-compliance** should be addressed in your answer. Two marks will be awarded for the correct presentation of your answer.

**(25)****1.2 Describe the general physical access controls that Minetech should implement to control access to the computer onto which the company's internet banking software is loaded in a computerised environment.****(15)****1.3 Describe the password controls as part of good logical access controls that Minetech should implement to prevent the theft of money due to unauthorised access to the company's bank account in a computerised environment.****(10)**

Note that your answer should only address password controls.

**QUESTION 2****50 Marks**

You are part of the internal audit team of The Family Store Limited, a large general dealer in South Africa. On review of the current year financial statements the external auditors reported material discrepancies between physical inventory on hand and perpetual inventory in the financial records. As a result, the financial director requested internal audit to perform an investigation into the effectiveness of the system of internal control over the **ordering of goods**, as an important function in the purchasing of inventory for the company.

### Ordering of goods

You identified the following **risks** in the **ordering of goods** function which could occur due to weaknesses in the system of internal control:

1. The ordering of incorrect or unnecessary goods, resulting in liquidity problems and wastage.
2. The ordering of unauthorised goods resulting in losses to the company through fraud.
3. Obtaining of inferior quality goods.
4. Paying unnecessarily high prices for goods ordered.
5. Orders placed with suppliers that are not filled / not timeously filled.
6. Order forms that are misused, for example for placing orders for private purchases.

### Creditors masterfile

Management decided to implement a new **computerised creditors masterfile** as part of the improvement of internal controls over the ordering of goods and suppliers in particular. This would prevent, amongst others, employees from creating fictitious suppliers to conceal theft during the ordering of goods.

### Year end inventory count

In addition to the above measures taken by the company, the external auditors also recommended that the company review and improve its **year end inventory count** procedures in order to establish accurate inventory quantities at year end.

## REQUIRED

Marks

- 2.1 Advise management of the **internal controls (in a manual system)** that could be implemented to mitigate the risks that you identified.

Present your answer in the following format:

Risk no.	Internal control
1.	
2.	
3.	
4.	
5.	
6.	

(15)

- 2.2 Describe the **controls** that should be implemented over the new **creditors' masterfile** in a **computerised environment**.

(15)

- 2.3 Describe the procedures which employees should follow when **conducting a physical year-end inventory count** as part of good internal control over inventory.

(20)

---X---

## 10 EXAMINATIONS

### Requirements for admission to the examination

Submission of the **compulsory assignment 01** by its due date will give a student admission to the examination in this module. Admission will be obtained by submitting this assignment **in time** and not by the marks you obtain for it. Please ensure that this assignment reaches the University **before or on the due date**. **Late submission of the assignment will result in you not being admitted to the examination. No extension will be given for the late submission of assignments 01 and 02.**

### The examination period

This module is offered in both semesters. This means that if you are registered for the first semester, you will write the examination in May/June 2014 and the supplementary examination will be written in October/November 2014. If you are registered for the second semester you will write the examination in October/November 2014 and the supplementary examination will be written in May/June 2015.

During the semester, the examination section will provide you with information regarding the examination in general, examination venues, examination dates and examination times.

### The examination paper

Note that your self evaluation assignment is an example of an examination paper. It was included in this tutorial letter under point 9. Please refer to this assessment opportunity for the format of the examination paper and type of questions you can expect in the examination.

### Previous examination papers

Previous examination papers are available to students on *myUnisa*. Suggested solutions are not provided. You may, however, accept that the type of questions that will be asked in the examination will be similar to those found in your study material.

Use the ***my Studies @ Unisa*** brochure for general guidance for the examination as well as for your preparation for the examination.

## 11 FREQUENTLY ASKED QUESTIONS

The ***my Studies @ Unisa*** brochure contains an A-Z guide of the most relevant study information.

## 12 SOURCES CONSULTED

Except for the prescribed text books of the module no additional sources were consulted.

## 13 CONCLUSION

Wishing you every success with your Auditing studies! We are here to assist you where we can with the content of the module. Please make the most of your opportunity to learn about this module.

## **14 ADDENDUM**

There is no addendum to this tutorial letter.