

Corporate Governance

Board and Directors

Principle 2.1: The board should act as the focal point for and custodian of corporate governance

2.1.1 This means that the company should exercise leadership, integrity and judgement to achieve prosperity and sustainability. It should

- have a charter laying out its responsibilities
- meet at least 4 times a year
- monitor the relationship between management and the stakeholders of the company

Principle 2.6: The board should ensure the company has an effective and independent audit committee.

Principle 2.14: The board and its directors should act in the best interests of the company.

Principle 2.16: The board should elect a chairman who is an independent non-executive director. The CEO of the company should not also fulfil the role of the chairman of the board.

2.16.1 The chairman should be

- appointed on an annual basis
- independent and not conflicted

2.16.6 The chairman should

- not be a member of the audit committee
- not chair the remuneration committee (may be a member)
- not chair the risk committee (may be a member)
- be a member of the nomination committee and may chair it

Principle 2.17: The board should appoint the chief executive officer and establish a framework for the delegation of authority.

2.17.5 The CEO should

- not be the chairman
- not be a member of the remuneration, audit or nomination committees
- not take on the chairmanship of other companies
- consider carefully the appropriateness of taking on non-executive directorships in other companies outside the group.

Composition of the board

Principle 2.18: The board should comprise a balance of power with a majority of non-executive directors. The majority of non-executive directors should be independent.

2.18.1 Executive director:

- a director who is involved in the management of the company and/or is a full time salaried employee of the company

2.18.2 Non-executive director: a director who is not involved in the management of the company.

2.18.3 Independent non-executive director:

A director who

- is not a representative of a shareholder who has the ability to control or significantly influence management
- does not have a direct or indirect interest in the company which is material to the director of the company (A holding of 5% or more is considered material).
- has not been employed by the company (or group) in any executive capacity for the preceding three financial years
- is not a member of the immediate family of an individual who is, or has been during the previous three financial years, employed by the company (or group) in an executive capacity
- is not a professional advisor to the company
- is free from any business or other relationship which could be seen to interfere materially with the individual's capacity to act independently.
- does not receive remuneration contingent upon the performance of the company

2.18.4 The board should

- ensure that there is an appropriate balance of power (and authority) on the board i.e. it should not be dominated by an individual or grouping of individuals.
- Consist of individuals of integrity and courage
- have a suitable diversity of academic qualifications, technical expertise, industry knowledge, experience, nationality, age, race and gender to conduct the business of the board and make it effective
- have as a minimum, a chief executive officer and a financial director
- ensure that the independence of any independent non-executive director who has served for more than 9 consecutive years is rigorously reviewed

2.19: Directors should be appointed through a formal process

2.19.1 The procedure for appointing directors to the board should be formal and transparent.

2.19.4 It is important to ensure that a proposed director has not been declared delinquent, and is not on probation in terms of the companies act.

Company Secretary

Principle 2.21 The board should be assisted by a competent, suitably qualified and experienced company secretary.

2.21.3 The company secretary should

- have an arms-length relationship with the board
- not be a director of the company
- assist the nominations committee with the appointment of directors
- provide guidance to the board on the duties of the director and good governance
- ensure preparation and circulation of minutes of the board and board committee meetings

Board committees

Principle 2.23 The board should delegate certain functions to well structured committees but without abdicating its own responsibilities

2.23.4 King III recommends four standing committees, namely audit, risk, remuneration and nomination committees.

Audit committee: chairman should be independent non-executive director

Remuneration committee: chairman should be independent non-executive director

All members should be non-executive directors

Majority of which should be independent

Risk committee: should be non-executive director

Members should be executive and non-executive directors

Senior management and independent risk management experts where necessary

Nomination committee: chairman should be chairman of the board

All members should be non-executive directors

Majority of which should be independent

Audit Committees

Principle 3.1: The board should ensure that the company has an effective and independent audit committee

3.1.3 Meetings

- the audit committee should meet as often as necessary to fulfil its function but at least twice a year

Principle 3.2. Audit committee members should be suitably skilled and experienced independent non-executive directors.

3.2.1 All members should be independent non-executive directors and there should be at least three members.

Principle 3.3: The audit committee should be chaired by an independent non-executive director

3.3.2 The chairman of the board should not be the chairman of the audit committee

Risk Committee

4.3: The risk committee or audit committee should assist the board in carrying out its risk responsibilities.

4.3.2 If a risk committee is appointed it should:

Be chaired by a non-executive director

Have a minimum of three members

Consist of a mix of executive and non-executive directors

Convene at least twice a year

General Controls and Application controls

General Physical controls to prevent access to the computer onto which the company's bank account software is loaded

1. The IT department should be contained in a separate building or wing of a building.
2. The building should have a dedicated room in which all the equipment which runs the system would be housed, for example the CPU and servers.
3. Only a limited number of personnel should be allowed access to the data centre.
4. Visitors from outside the company to the IT building should be controlled:
 - a. Be required to have an official appointment to visit IT personnel working in the IT department
 - b. On arrival be cleared at the entrance to the company's premise, for example by a call to the IT department
 - c. Be given an ID tag and possibly escorted to the department
 - d. Not be able to gain access through the locked door
 - e. Wait in reception for (or be met at the door) by whoever they have come to see.
 - f. Be escorted by a security guard out of the department at the conclusion of their business
5. Physical access to the data centre should be controlled:
 - a. Only individuals who need access to the data centre should be able to gain entry
 - b. Access points should be limited to one
 - c. Access should be through a door that is locked
 - d. The locking device should be deactivated only by a swipe card, entry of a PIN number or scanning of biometric data
 - e. Entry/exit point should be under closed circuit TV
6. Remote workstations/terminals should be controlled:
 - a. Should be locked and secured to the desk
 - b. Placed where they should be visible and not near a window
 - c. Offices should be locked at night and at weekends
 - d. Data cables should be protected to prevent tapping as a means of access to the system.

Password controls to prevent access to the company's bank account

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

8. Personnel should be prohibited from disclosing their passwords to others and subjected to disciplinary measures if they do so.
9. Password should be changed if confidentiality has been violated, or violation is expected.
10. Passwords should not be obvious eg birthdays, names or names backwards
11. Two passwords from two separate personnel should be required to gain access to the bank account.
12. The passwords should only be valid and accepted by the system during business hours of the company.
13. Failed password login attempts should be logged and investigated.

Revenue and Receipts Cycle

Order of the functions in a credit sale transaction:

1. Order department
2. Warehouse/despatch
3. Invoicing
4. Recording sales and raising the debtor
5. Receiving and recording payment from debtors
6. Credit management

Function	Document
Order department	Price lists Customer order Internal sales order Back-order note
Warehouse/despatch	Picking slip Delivery note
Invoicing	Invoice
Recording of sales and raising debtors	Statement Goods returned voucher Credit note
Receiving and recording payments from debtors	Remittance advice Remittance register Receipt Deposit slip
Credit management	Credit application form

CASH SALES

In a cash sales transaction, payment is received from the customer when the goods are supplied to the customer. In broad terms, a cash sale transaction follows the same process as a credit sales transaction.

ACQUISITIONS AND PAYMENTS CYCLE

The functions of the acquisition of and payment for credit purchases are:

- Ordering of goods
- Receiving of goods
- Recording of purchases
- Payment preparation
- Payment and recording of the payment

Function	Document
Ordering of goods	Requisitions Purchase order forms
Receiving of goods	Suppliers' delivery note Goods received note
Recording of purchases	Purchase invoice Credit note
Payment preparation	Creditors' statements Cheque (payment) requisitions
Payment and recording of the payment	Remittance advice Cheque or electronic payment Receipt

INVENTORY AND PRODUCTION CYCLE

Warehousing	Production
Goods received note	Materials (components) requisition,

Picking slip and delivery notes	materials (components) issue note Manufacturing or production schedules Job cards Production report Costing schedule Transfer to finished goods note

Physical controls over inventory in the warehouse

1. There should be **minimum entry and exit points** to the warehouse.
2. **Entry and exit** to and from the warehouse should be **controlled**, for example swipe cards, keypads, turnstiles, gate control, biometric readers.
3. **Security guards** should be present at all entry and exit points.
4. **Entry should be restricted**, for example buying clerks should not be permitted to enter stores unaccompanied.
5. The **buildings should be secure** with a minimum number of windows and a solid structure.
6. **Environmental**: areas should be dry, clean, neatly packed, pest free and temperature controlled where necessary.
7. **Surveillance**/video cameras should be installed over entry and exit points such as receiving and despatch areas.
8. **Adequate insurance cover** should exist to recover financial losses due to damage to or theft of inventory.
9. **Fire extinguishers** should be installed in high-risk areas considering the high risk of fire of flammable cleaning materials and chemicals.
10. Regular **physical inventory counts** should be performed to detect losses in time.
11. All material **variances** or inventory losses detected during the inventory count should be **investigated**.

PAYROLL AND PERSONNEL CYCLE

1. The following documents will be found in the payroll cycle:
 - 1.1 Income tax tables
 - 1.2 Clock card
 - 1.3 Cash book
 - 1.4 Employment contract
 - 1.5 Unclaimed wages register
 - 1.6 Cheque requisition
 - 1.7 General ledger

2. The correct order in which the documents will be found and the functions within which they will be used are:

- 2.1 Employment contract – Personnel (Human Resources)
- 2.2 Clock card – timekeeping
- 2.3 Income tax deduction tables – Payroll preparations
- 2.4 Cheque requisition – Payroll preparations
- 2.5 Unclaimed wages register – Payout
- 2.6 Cash payments journal – Recording
- 2.7 General ledger – Recording

Internal control over the wage packet preparation and pay-out of wages

1. Wage packets should be **made up by two wage department members**.
2. On delivery of the payroll and pay packets to a section, the section head should ...
 - agree the **number of wage packets to the payroll**
 - **sign the payroll** to acknowledge receipt.
3. The wage packets and payroll should be **locked away until pay-out**.
4. The wage pay-out should be **conducted** by at least **two employees**.
5. Employees should ...
 - **present identification** prior to receiving their pay packets
 - acknowledge receipt of their wage packet by **signing the payroll**
 - count their cash and **immediately report any discrepancies** to the paymaster.
6. Employees should **not** be allowed to accept a pay packet **on behalf of another employee**.
7. At the conclusion of the pay-out, the paymaster and foreman who have conducted the pay-out, should ...
 - agree all unclaimed **wage packets to the payroll**
 - enter the details of unclaimed wages in an **unclaimed wage register**.
8. The unclaimed wage packets and payroll should be retained by the paymaster who should **lock them away**.
9. When employees wish to collect their unclaimed wages, they must **identify** themselves and **acknowledge receipt** of their wage packets by signing the unclaimed wage register.
10. Regular independent **reconciliations** of unclaimed wage packets on hand and the unclaimed wage register should be performed.
11. Any wages remaining unclaimed **should be banked after two weeks**.

FINANCE AND INVESTMENT CYCLE

