



University of Fort Hare
Together in Excellence

**NKUHLU DEPARTMENT OF
ACCOUNTING
GOVERNANCE & AUDITING 2
AUD211E**

**SEMESTER EXAMINATION
5 JUNE 2023**

ASSESSOR: Mrs Nicola Sansom
MODERATOR: Ms Lieketseng Motalingoane (Internal)
TIME: 180 minutes (plus 30 minutes reading time)
MARKS: 100
PAGES: 10 pages (including front page and required)

INSTRUCTIONS:

- Answer **all** the questions.
- Ensure that you number each question correctly..
- Show all workings clearly – marks are allocated to workings.
- Calculate the time that you should spend on each question by multiplying the number of marks for each question by 1.8 to determine the time, in minutes, available for each question. Adhere to these time constraints in order to finish the paper in the given time.
- Delete all open spaces on your answer sheets with pen. Pages on your answer sheets that contain open spaces will not be eligible for a remark.
- Students that contravene the rules in the General Prospectus of the University of Fort Hare will be disciplined in accordance with said rules.

Question	Topics covered	Marks	Minutes
1	Ethics	13	23
2	Companies Act	28	50
3	Code of Professional Conduct	15	27
4	Corporate Governance and King IV Report	20	36
5	Audit Profession Act	24	44
Total		100	180

QUESTION ONE

13 marks 23 minutes

Litha Yamkela CA(SA) has just been employed as the financial manager of Emonti Cold Chain Logistics (Pty) Ltd, a local logistics company in East London. The business has, until recently, specialised in offering the long-term rentals to food manufacturers. However, with the current economic conditions and a decline in the long-term rentals, a gap arose in the market to offer the transportation of a 'paid' load.

In terms of the new division, Emonti Cold Chain Logistics (Pty) Ltd employed a number of drivers to assist with the 'paid' loads.

As the financial manager of the company, Litha Yamkela has numerous accountants and bookkeepers who are responsible for the processing of the daily accounting transactions. Litha Yamkela's responsibility is to review the accountants' and bookkeepers' work, payroll submissions reconcile the monthly mileage per vehicle to the charge per the customer invoices, and to prepare monthly management reports for review by the board of directors.

During the first month at his new job, while reviewing the monthly mileage per vehicle to the charge per the customer invoices, in preparation for preparing monthly management reports, Litha Yamkela noticed that the monthly mileage exceeds the mileage invoiced to customers for 'paid' loads.

Litha Yamkela investigated further, and from the motor vehicle tracker reports was able to identify that the drivers are making use of the vehicles after hours. Based on this, Litha Yamkela believes that the drivers are 'moonlighting' and driving 'paid' loads after hours at the expense of the company.

As a professional accountant, Litha Yamkela believes in the ethical principles of his profession and holds the principles in high esteem. Litha Yamkela is concerned about this as it does not only affect the expenses of the company, but also potential customers. He decided to discuss the matter further with Zwelibi Ndlovu CA(SA), the financial director.

Zwelibi Ndlovu was quite casual about the matter and indicated to Litha Yamkela that he trusts the staff and does not believe that they would be doing this.

Zwelibi Ndlovu advised Litha Yamkela to ignore and not report the matter to the board as taking it further will create problems for all concerned, including Litha Yamkela himself.

QUESTION 1 – REQUIRED		Marks	
		Sub-total	Total
1.1	Identify the ethical dilemma Litha Yamkela is faced with.	2	2
1.2	Identify two (2) stakeholders who are affected by the ethical dilemma. Note why you would consider them to be stakeholders.	2	2
1.3	What are the three most important professional virtues/principles of a professional accountant?	3	3
1.4	Apply ONE of the three classical theories on ethics which Litha Yamkela can use to evaluate the options available to him.	6	6
Total			13

QUESTION TWO

28 MARKS: 50 MINUTES

You are a registered accountant and auditor in public practice at Goboda Incorporated. Sam Fani and Gcobisa Paliso have made an appointment to see you about a company they want to form. Sam Fani has designed a new industrial sewing machine which he has patented and now wants to sell to the clothing industry. Gcobisa Paliso inherited a lot of money and will provide most of the finance required for the venture. The two of them will initially be the only shareholders and directors of the company but it is expected that over time, a few new shareholders will be added as well as one or two directors appointed. The company will be known as Machines Unlimited (Pty) Ltd.

The company will operate from a factory which they have identified as being suitable to lease. The owner of the factory wants to tie up (conclude) the lease as soon as possible. Sam Fani estimates that in the first year of operation they will employ about twenty people (including themselves) and generate turnover of approximately R20 million, and that liabilities will not exceed R3 million at any time (the company's initial public interest score would therefore be less than 100).

The following questions were put to you:

- 2.1 Sam Fani asked if you would outline the steps required to incorporate the company.
- 2.2 Gcobisa Paliso asked whether, it was necessary to produce annual financial statements and what financial records they were required to keep and for how long they needed to be kept.
- 2.3 Gcobisa Paliso said that she had been told about something called a public interest score and that if your business had one it had to be externally audited. She wanted to know what the public interest score was all about and if they would have to be externally audited. Sam added that he had heard that their company would have to be independently reviewed by an auditor and wanted to know whether this was correct.
- 2.4 Gcobisa Paliso enquired as to whether it was possible for the proposed company to enter into a lease contract for the factory before the company was incorporated.

	QUESTION 2 – REQUIRED	Marks	
		Sub-total	Total
2	Write a formal letter to Gcobisa Paliso and Sam Mzana and respond in terms of the Companies Act 72 of 2008 to their questions.		30
	2.1 Incorporation of a company	8	
	2.2 Producing annual financial statement and accounting records Annual Financial Statements	6	
	2.3 Public interest score	8	
	2.4 Pre-incorporation contract	6	
	Communication and layout (letter format, structure of answer)	2	
	Total		30

QUESTION THREE**15 MARKS: 27 MINUTES**

Peter Booyens, a (CA)SA and a partner in the auditing firm of Booyens and Associates, was recently approached by John Blog, also a (CA)SA, and the financial director of Musical Madness Limited, a retailer of musical instruments, to take over the audit of Musical Madness Limited for the current financial year. John informed Peter that his previous auditors were too pedantic and wanted too much information from him and his staff, which irritated him. Now that he has dismissed them, he wants to appoint Booyens and Associates as Musical Madness Limited's new auditors, on condition that Peter and his team do not contact the previous auditors. Peter, who did not have a problem with John's request, accepted the appointment.

	QUESTION 3 – REQUIRED	Marks	
		Sub-total	Total
3	Discuss the concerns and safeguards with reference to the SAICA Code of Professional Conduct for Peter Booyens CA(SA).	15	15
	Total		15

QUESTION FOUR

20 MARKS: 36 MINUTES

You are a first-year trainee accountant on the audit of Mobile Cellular Ltd, a mobile data provider company listed on the JSE. The financial year-end for the company is 28 February 2023.

You have been assigned to review whether Mobile Cellular Ltd is complying with the King IV™ Report on Corporate Governance for South Africa (King IV™ report) with regard to the composition and function of the audit committee. You have been provided with the following extract of an audit committee meeting held during the financial year ended 28 February 2023. All members of the audit committee were in attendance:

- Mrs Dwangu - chairperson and marketing director
- Mr Sibaca - financial director
- Mrs Ross - independent, non-executive director
- Mr Ndlovu - independent, non-executive director and chairperson of the board

The audit committee approved the internal audit plan as compiled by an external consultant, Internal Control Inc. All members agreed that it would not have been possible to compile the plan without the help of the individual consultant from Internal Control Inc. owing to his vast technical knowledge relating to the development of financial controls. All members further agreed that they had learnt a lot from his experience, as they had not been part of the audit environment for a number of years. Mrs Dwangu also informed the members of the audit committee that she was required to notify the board as soon as the audit committee had filled the current vacant position of the chief audit executive (CAE).

Mr Sibaca informed the other members of the audit committee that the financial management division of Mobile Cellular Ltd was still working on the framework for the company's integrated report, and that he would inform the committee once it had been finalised and published in Mobile Cellular Ltd's annual report.

QUESTION 4 – REQUIRED		Marks	
		Sub-total	Total
4.1	Explain the term 'board committee' and list the different board committees that are recommended as per the King IV™ report.	6	6
4.2	Identify any corporate governance concerns regarding the audit committee in terms of the King IV™ report. For each concern, provide a recommendation(s) and/or requirement(s) from the King IV™ report. Present your answer in a tabular format with the following columns, <ul style="list-style-type: none"> • <i>Concern/s</i> • <i>Recommendations and/or requirements of King IV™ report</i> 	14	14
Total			20

QUESTION FIVE**24 MARKS: 44 MINUTES****QUESTION 5.1 (5.1 is unrelated to 5.2)**

You are the senior in charge of the compliance with laws and regulations audit of Slippers Ltd, a company specialising in the manufacture of sheepskin slippers. While reading the minutes of the board meetings, you realised that the board approved a loan to the value of R5 million to a director in financial distress. You also realised that the board did not comply with the Companies Act 71 of 2008 requirements for providing financial assistance to directors and that the loan was therefore illegal. Upon further enquiry from the board, you determined that, owing to this loan, the company does not have the resources to pay their creditors at the end of the financial year, thereby creating material financial losses to said creditors.

	QUESTION 5.1 – REQUIRED	Marks	
		Sub-total	Total
5.1.1	Discuss whether the above constitutes a reportable irregularity as defined in the Auditing Profession Act 26 of 2005	9	9
5.1.2	Discuss the auditor's responsibility with regards to the situation described above as set out in the Auditing Profession Act 26 of 2005.	8	8
	Total		17

QUESTION 5.2 (5.2 is unrelated to 5.1)

Mr Rogers, a partner in the firm of Rogers Incorporated, is in charge of the audit of Vortex Electrical Company Ltd (Vortex). The board of Vortex requested that he audit the financial information of the company for inclusion in a prospectus, which he agreed to do.

During the course of the audit, Mr Rogers' wife left him, as a result of which he became distracted. Consequently, he did not adequately investigate the company's low provision for bad debt. A few months after the share issue for which the prospectus was required, Vortex's board of directors announced that a number of the company's large debtors could not settle the monies owed to the company. Later, the company's share price fell by more than 25%.

A number of shareholders in Vortex who had bought shares in the company on the basis of the financial information contained in the prospectus decided to sue Mr Rogers and his firm for the loss that they had suffered as a result of the drop in the company's share price.

	QUESTION 5.2 – REQUIRED	Marks	
		Sub-total	Total
5.2	In terms of the Auditing Profession Act 26 of 2005, would the aggrieved shareholders be likely to succeed with their action against Mr Rogers and his firm? Motive your answer.	7	7
	Total		7

*** End of assessment ***

Academic Record

Name : QUKULA ASINONGAMBULELI XHOBANI
Student Number : 201928020
Identity Number : 9612205178083 Date Of Birth : 20-DEC-1996

Student Is In Debit By R 183725.06

Year : 2019 BACHELOR OF COMMERCE

Annual Result :

SEMESTER ONE EAST LONDON

AEB111L	BUSINESS ENGLISH (1A) (F)		FAIL NO ADMISSION/NO YEAR MARK
AMB111L	BUSINESS MATHEMATICS (1A) (F)	31	FAIL SUBMINIMUM
BEC111L	BUSINESS MANAGEMENT (1A) (F)	82	PASS - DISTINCTION
CLT111L	COMPUTER LITERACY (F)	80	PASS - DISTINCTION
ECO111L	ECONOMICS (1A) (F)	61	PASS

SEMESTER TWO EAST LONDON

AEB121L	BUSINESS ENGLISH (1B) (F)	76	PASS - DISTINCTION
AMB121L	BUSINESS MATHEMATICS (1B) (F)	36	FAIL
BEC121L	BUSINESS MANAGEMENT (1B) (F)	84	PASS - DISTINCTION
ECO121L	ECONOMICS (1B) (F)	73	PASS

Year : 2020 BACHELOR OF COMMERCE

Annual Result : PT PROCEED TO NEXT STUDY PERIOD

SEMESTER ONE EAST LONDON

ACL111E	COMMERCIAL LAW 1A	61	PASS
AEB111L	BUSINESS ENGLISH (1A) (F)	60	PASS
AMB111L	BUSINESS MATHEMATICS (1A) (F)	70	PASS
BEC112L	BUSINESS MANAGEMENT (1D) (F)	86	PASS - DISTINCTION
ECO112L	ECONOMICS (1C) (F)	87	PASS - DISTINCTION

SEMESTER TWO EAST LONDON

ACL121E	COMMERCIAL LAW 1B	75	PASS - DISTINCTION
AMB121L	BUSINESS MATHEMATICS (1B) (F)	75	PASS - DISTINCTION
BEC123L	BUSINESS MANAGEMENT (1D) (F)	79	PASS - DISTINCTION
ECO123L	ECONOMICS (1D) (F)	87	PASS - DISTINCTION
IFS121E	FUNDAMENTALS INFORMATION SYSTEMS	92	PASS - DISTINCTION
LKA121E	LIFE; KNOWLEDGE AND ACTION	75	PASS - DISTINCTION

Year : 2021 BACHELOR OF COMMERCE

Annual Result : F CONTINUING STUDIES (AP)

Continued On Next Page

Academic Record

Name : QUKULA ASINONGAMBULELI KHOBANI
 Student Number : 201928020
 Identity Number : 9612205178083 Date Of Birth : 20-DEC-1996

SEMESTER ONE EAST LONDON

ACG111E	GENERAL ACCOUNTING 1A	86	PASS - DISTINCTION
BEC213E	HUMAN RESOURCES MANAGEMENT 2A	81	PASS - DISTINCTION
BEC214E	OPERATIONS MANAGEMENT 2A	67	PASS
ECO211E	MICROECONOMICS	70	PASS
IFS215E	DATABASES	75	PASS - DISTINCTION
TFN111E	THEORY OF FINANCE	76	PASS - DISTINCTION

SEMESTER TWO EAST LONDON

ACG121E	GENERAL ACCOUNTING 1B	94	PASS - DISTINCTION
BEC221E	MARKETING MANAGEMENT (2B)	77	PASS - DISTINCTION
BEC225E	FINANCIAL MANAGEMENT (INTRODUCTION)	75	PASS - DISTINCTION
ECO221E	MACROECONOMICS 2B	75	PASS - DISTINCTION
IFS224E	BUSINESS AND SYSTEMS ANALYSIS	71	PASS
STD121E	STATISTICS 1D	76	PASS - DISTINCTION

Year : 2022 BACHELOR OF COMMERCE
 Annual Result : F CONTINUING STUDIES (AP)

SEMESTER ONE EAST LONDON

BEC313E	FINANCIAL MANAGEMENT 3A	76	PASS - DISTINCTION
BEN311E	ENTREPRENEURSHIP (3A)	50	PASS
CMP311E	PROFESSIONAL COMMUNICATION	75	PASS - DISTINCTION
ECO311E	MICRO & MACROECONOMICS THEORY	77	PASS - DISTINCTION
ECO312E	PUBLIC FINANCE	71	PASS

SEMESTER TWO EAST LONDON

BEC324E	BUSINESS RESEARCH (BCG) 3B	81	PASS - DISTINCTION
BEC325E	STRATEGIC MANAGEMENT (BCG) 3B	76	PASS - DISTINCTION
BEN321E	ENTREPRENEURSHIP (3B)	19	FAIL NO ADMISSION/NO YEAR MARK
ECO321E	INTERNATIONAL TRADE THEORY & POLICY	54	PASS
ECO323E	LABOUR ECONOMICS	53	PASS

Year : 2023 BACHELOR OF COMMERCE
 Annual Result :

SEMESTER ONE EAST LONDON

ETE311E	TRANSPORT ECONOMICS (3A)	50	PASS
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Academic Record

Continued From Page 2

Name : QUKULA ASINONGAMBULELI XHOBANI
Student Number : 201928020
Identity Number : 9612205178083 Date Of Birth : 20-DEC-1996
IFS312E IS/IT PROJECT MANAGEMENT 75 PASS - DISTINCTION
SEMESTER TWO EAST LONDON
ECO326E MONEY BANKING & INTERNATIONAL FINAN NO RESULT
ETE321E TRANSPORT ECONOMICS (3B) NO RESULT

MS U GANTSA FOR REGISTRAR
24-JUL-2023