University of Fort Hare
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DEPARTMENT OF ACCOUNTING, ECONOMICS & FINANCE

GOVERNANCE & AUDITING 2

AUD211E

SUPPLEMENTARY EXAMINATION
19 JUNE 2025

ASSESSOR:	Mrs Nicola Sansom
MODERATOR:	Ms Lieketseng Motalingoane (Internal)
TIME:	180 minutes (including 22 minutes reading time)
MARKS:	105
PAGES:	7 pages (including front page and required)

INSTRUCTIONS:

- Answer **all** the questions.
- Start each question on a new page.
- 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 1.5 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	Companies Act	36	54
2	Code of Professional Conduct	18	27
3	Corporate Governance	36	54
4	Auditing Professions Act	15	23
Total		105	158

QUESTION 1 **(36 MARKS: 54 MINUTES)**

Amasi Africa (Pty) Ltd is a manufacturer of a fermented milk, commonly known as 'amasi'. The company was established in 2016 by Mr Xolani Dlamini and Mr Siviwe Stebisa, and the company has a 28 February year-end. The company employed 45 staff members (excluding executive directors) by 1 March 2022. On 28 February 2023, the number of staff employed had increased to 53 (excluding executive directors). The company operates from East London and distributes their product throughout the Eastern Cape.

Amasi Africa (Pty) Ltd procures fresh milk from local producers. The current favourable farming conditions over the last year have meant that the company's turnover for the financial year-ended 28 February 2023 increased to R25 million. This was an increase on the prior year's turnover by R6.5 million.

During the current financial year, the company was able to improve their working capital and as a result, reduce long-outstanding creditors. This meant that the balance per the creditor's age analysis was reduced to R3.5 million. This was a reduction of R2.75 million if compared to the prior year. Long term liabilities remained at R4 million.

The company also has 5 executive directors. Two of the directors are the founders, Mr Xolani Dlamini and Mr Siviwe Stebisa. The directors are also the 5 shareholders. In terms of the shareholding, there are 500 000 authorised shares. Of these, 350 000 shares have been issued equally to the 5 shareholders at an issue price of R15 per share. The directors are of the opinion that the market price of the shares has increased from the issue price of R15 per share to R18 per share.

Part A

Mr Xolani Dlamini has been advised by his lawyer, who is reviewing all the legal formalities that the company will need to appoint an external auditor at the next Annual General Meeting (AGM). Mr Xolani Dlamini is not sure about the requirements relating to the appointment of external auditors and therefore has asked you to explain whether the company is required to appoint an external auditor or not. He has read the memorandum of incorporation and it does not mention having to appoint an external auditor.

QUESTION 1 Part A – REQUIRED	**Marks**	
	Sub-total	**Total**
Respond to Mr Xolani Dlamini's question by calculating the Public Interest score for the company. State, giving brief reasons, whether the company is required to appoint an external auditor or not.	11	**11**
Total		**11**

Part B

The following are two resolutions taken by the board during the course of the current financial year.

Resolution 1
Amasi Africa (Pty) Ltd would like to improve the quality of their 'amasi' product. The milk currently used in the production process has not being homogenised[1].According to research performed by Mr Xolani Dlamini, the operations director, Amasi Africa (Pty) Ltd would need to purchase a homogenisor in order to do so.

Mr Xolani Dlamini has obtained a quote from his brother, who owns an export and import business, Machines Unlimited (Pty) Ltd. Mr Xolani Dlamini has suggested that the board approve the purchase of the machinery from Machines Unlimited (Pty) Ltd. He failed to disclose that his brother owns the company and that he actually has a shareholding in the business. The Board voted in favour of this contract. All directors were present and voted unanimously.

Resolution 2
After performing a capital budgeting exercise to determine how Amasi Africa (Pty) Ltd would fund the purchase of the new machinery, the Financial Director called a directors' meeting. At this meeting, he proposed the issue of an additional 200 000 shares at R6 each. The Memorandum of Incorporation states that no unauthorised share capital may be issued. The Financial Director and Mr Xolani Dlamini were the only directors who were present at the directors' meeting. The meeting was held in Mr Xolani Dlamini's office, and they approved the proposal. Mr Xolani Dlamini noted that the excess shares issued can be approved at the next board meeting – which is only to be held in 3 months' time.

QUESTION 1 Part B – REQUIRED	**Marks**	
	Sub-total	**Total**
The board has asked you to examine the two resolutions taken and advise them on whether the resolutions are in line with the Companies Act of 2008. Your assessment should include the following: • *Resolution 1* • *Resolution 2* *Communication skills – logical argument and layout*	 13 10 2	25
Total		**25**

[1]Homogenisation is a process by which the fat droplets from milk are turned into extremely small particles under high pressure, and are then distributed uniformly throughout the milk. The end result is that the cream and milk will not separate as they would, should the milk not be homogenised.

QUESTION TWO **(18 MARKS: 27 MINUTES)**

Mr John Fox is a director of Fox and Associates Inc, a small firm of chartered accountants and registered auditors. Their offices are in Cape Town.

<u>During the period of 1 July 2022 – 31 August 2022, the following occurred:</u>

1 On 10 July 2022, Mr Fox sent his sister, Janet Payne, an email. Janet is the Chief Financial Officer (CFO) of Future Medical Supplies (Pty) Ltd, a medical supply company with seven branches in the Western Cape, and an audit client of Fox and Associates Inc. The email reads as follows:

We will take on accounting work, tax work, consulting work – whatever you have for us. We have two junior trainees who have not had any work for the last three weeks. We cannot afford this.

2 The Corner Shopper (Pty) Ltd), a local supermarket, is one of Fox and Associates Inc oldest clients. Mr Fox and Peter Malika, the general manager of The Corner Shopper, are very close friends. They have lunch together once a quarter where they discuss any queries Peter might have. However, in order to remain objective when he audits the company's financial statements, Mr Fox is careful not to provide Peter with any accounting services. As a way of thanking Mr Fox for his support and advice, Peter has offered to pay for Mr Fox and his wife to go on a two-week vacation to France during the next school holidays. Mr Fox is excited about telling his wife about the trip, as she has always wanted to visit France.

3 On 31 July 2022, Mr Fox is approached by a prospective client, Bizanah Construction (Pty) Ltd to assist in finding a suitable empowerment partner for the company. Bizanah Construction (Pty) Ltd would like to sell a shareholding in the business to improve their empowerment terms. Subsequent to this, Mr Fox reviewed the financial statements of Bizanah Construction (Pty) Ltd. He has realized that purchasing shares in Bizanah Construction (Pty) Ltd would be a very good investment and as a result has asked his friend, Sipho Rozani, to buy the shares on his behalf. However, Sipho Rozani must present that he (and not Mr Fox) is the buyer.

4 On 15 August 2022, Mr Fox called three experienced managers, who are working for other small firms, in Cape Town and offered each manager, a director position in Fox and Associates Inc. This, on condition that, they each bring clients with a fee income of at least R1 million per annum to Fox and Associates Inc.

QUESTION 2 – REQUIRED	Marks	
	Sub-Total	Total
Evaluate the situations above using the SAICA Conceptual Framework. • Identify the threats to Mr Fox's compliance with SAICA's Code of Professional Conduct. • Explain the fundamental principle(s) being threatened. • Explain the significance of the threat/s identified. • Describe the safeguards that should be put into place.	16	18
Communication skills – logical argument and layout	2	
Total		**18**

QUESTION THREE **(36 MARKS: 54 MINUTES)**

Giant Ltd is listed on the JSE. The company has interest in the car-retailing sectors in southern Africa, Europe and Australia. The company has a turnover in excess of R20 billion per annum. The company's financial year-end is 28 February 2023.

You are in possession of the following information about Giant Ltd's corporate governance practices:

1 The board of directors of Giant Ltd consists of:

- Mr Goffe (Chairperson)
    - Mr Goffe founded the company.
    - According to Giant Ltd's most recent annual report, he is an independent, non-executive director.
    - He gave up the CEO position in 2020, after holding the combined position of CEO and chairperson for 22 years.
- Mr Trengrove
    - According to Giant Ltd's most recent annual report, he is an independent, non-executive director.
    - He is a chartered accountant and has served on the board of the company for 12 years.
- Mr Clarke
    - According to Giant Ltd's most recent annual report, he is an independent, non-executive director.
    - He is an engineer by profession and has served as a director of Giant Ltd since 2011.
- Mr Junge
    - According to Giant Ltd's most recent annual report, he is an independent, non-executive director.
    - He was one of four people who provided Mr Goffe with capital when the latter started Giant Ltd and still holds approximately 2.5% of the issued shares in the

    company. The value of his shareholding is not material to Mr Clarke's personal wealth.
    - He has served on Giant Ltd's board since 2012.
- Mr Marks (Chief Executive Officer)
    - According to Giant Ltd's most recent annual report, he is an executive director.
    - He has served on Giant Ltd's board since 2007.
- Mr Woolcott (Financial Director)
    - According to Giant Ltd's most recent annual report, he is an executive director.
    - He has served on Giant Ltd's board since 2007.
- Mr Hlongwane (Director for Stakeholder Affairs)
    - According to Giant Ltd's most recent annual report, he is an executive director.
    - Mr Hlongwane was appointed to Giant Ltd's board during the financial year ended 28 February 2015. He was appointed after the well-known shareholder activist, Thinus Botes, challenged the company's board at the preceding AGM about a lack of transformation initiatives.
    - The position of director for stakeholder affairs was created for Mr Hlongwane.

2 Giant Ltd's board meets at least once per quarter. Attendance at the meetings is disclosed in its annual report.

3 According to the most recent annual report, Mr Junge did not attend any of the board meetings during that financial year. The report stated that he had permission from the chairperson not to attend for personal reasons.

4 Giant Ltd has three board committees, and attendance of committee meetings is disclosed in the annual report. These committees are:

- The remuneration committee, which consists of Mr Goffe (chairperson), Mr Trengrove and Mr Junge
- The audit committee, which consists of Mr Goffe (chairperson), Mr Clarke and Mr Marks
- The risk committee, which consists of Mr Goffe (chairperson), Mr Clarke and Mr Marks

5 At its last AGM, the company was challenged – again by Thinus Botes – about its 'incomprehensible remuneration disclosures' and 'excessive executive compensation packages' as compared to those of its competitors. Mr Goffe got so angry that he left the meeting, leaving Mr Hlongwane to deal with these issues. The other directors were not present at the meeting.

6 The company's three non-executive directors are paid the same fees for their services to the company. In 2010, the remuneration committee decided to give all the non-executive directors share options in the company.

7 In 2010, Giant Ltd's board decided to perform an evaluation of the company's board, the board committees, and its individual directors every second year, unless a new director was appointed or a director resigned, in which case an additional review would be conducted by the Institute of Directors.

QUESTION 3 – REQUIRED	Marks Sub-Total	Marks Total
Critically comment on Giant Ltd's governance practices with reference to the guidance contained in the King IV™ report. Your comments should deal with both sound and unsound governance practices.	34	36
Communication skills – logical argument and layout	2	
Total		**36**

QUESTION FOUR **(15 MARKS: 23 MINUTES)**

You are the auditor of the firm Mbeki and Radebe Inc. You have come across the following matter at your client CCR (Pty) Ltd.

CCR is a company that offers wedding planning services. The company runs large competitions to market is services. These competitions are overseen by the financial and marketing directors of the company. Couples can enter a competition at a fee of R5 per SMS entry. Winners are expected to pay a non-refundable deposit of R20 000 to secure their prize of a wedding worth R100 000. The minister however prescribes a maximum amount of R1.50 to enter into a competition of the nature and the law (Consumer Protection Act) is clear that the winners should not be paying a fee to claim their prize. During the audit it came to your attention the CCR has been appearing in several bribes complaining that the weddings they have supposedly won are not taking place. Upon further investigation you uncovered evidence which indicate that CCR uses the R20 000 deposits of couples who 'won' their competition, to finance weddings of R100 000

The company is however running out of deposit money and is struggling to finance further weddings.

	QUESTION 4 – REQUIRED	Marks Sub-total	Marks Total
4.1	Discuss whether the situation described above constitutes a reportable irregularity in terms of the Auditing Profession Act 2005.	6	8
	Communication skills – logical argument and layout	2	
4.2	Outline the procedures you would follow on satisfying yourself that a reportable irregularity is taking place.	7	**7**
	Total	15	**15**

End of Assessment*