



ASSESSMENT 3

Corporate governance in Accountancy AUE2602

Semester 1 2025

Department of Auditing

ASSESSMENT 3: ESSAY-TYPE QUESTION

The assessment covers lessons 1 to 6.

UNIQUE ASSIGNMENT NUMBER FOR THE FIRST SEMESTER: 620321

DATE OF SUBMISSION

First semester: 5 May 2025

Information about this assessment and special instructions for answering it:

1. This assessment covers Lessons 1 to 6 of the module.
2. This assessment will be an open book assessment. You will be allowed to consult the SAICA Student Handbook volume 2A and 2B while writing the assessment. Therefore you can access the ISAs, the Companies Act No. 71 of 2008 and King IV.
3. The solutions should be typed and converted to a PDF document.
4. Do not password protect the document.
5. No handwritten assessments will be accepted.
6. No late assessments will be accepted.
7. No e-mailed assessments will be accepted due to Unisa regulations.
8. Answer all the questions.
9. Only selected questions will be marked.

Plagiarism

- Please refer to Unisa's policy on plagiarism. Remember that your assessment must be your own work.
- By submitting your assessment, you confirm that you will adhere to the terms of the plagiarism declaration. Please note the following:
 - If you are found to have violated the declaration, you will receive a mark of 0% for the assessment.
 - If your entire assessment or any part of it is found to be copied from someone else's work (including your tutor's and your online study group's work), both you and the person(s) you copied from will receive a mark of 0%. Any assessments that look similar or have similar wording will be considered a violation of the declaration.

This declaration requires you to complete your assessment on your own.

PLAGIARISM DECLARATION

By submitting the AUE2602 written assessment, I declare that:

- I have read the Unisa *Disciplinary Code for Students*.
- I know what plagiarism is and realise that it is wrong. I am fully aware that disciplinary steps may be taken against me if I am found guilty of plagiarism.
- This assessment, submitted by me, is my own work and I have referenced all the sources I have used.
- I have not allowed any other student to copy my work.
- I have not made use of any artificial intelligence (AI) or other tool, including Google, to help complete this assessment.; and
- I understand that if I violate this declaration, I will receive a mark of 0% for this assessment.

Please note: You do not have to submit the declaration. By submitting any AUE2602 assessment, you automatically declare that you adhere to all the above in the specific assessment.

QUESTION 1**60 marks**

You are a trainee accountant at Mkhize Mine (Pty) Ltd (MM), a subsidiary of a mining company listed on the Johannesburg Stock Exchange Ltd (JSE). The company has a financial year ending 30 June 2025.

Coal is mined at MM using an open-cast mining method. The mining process involves digging up sections of land from which the coal is mined and then the land is restored once the area has been mined. MM thus restores the environment to its original condition after completing the mining process at a particular site.

Companies Act No. 71 of 2008 and the King IV Report

MM is investigating whether Ms Tar should be removed as a director of MM but is unaware of the Companies Act 71 of 2008 requirements that must be complied with before she may be removed.

Furthermore, the chief executive officer (CEO) of MM, Mr Ash, has asked for information on a King IV Report principle regarding evaluations of the performance of the governing body. He has asked you whether his understanding of certain statements is correct or incorrect.

1. The chair of the board's performance should be evaluated by the audit committee.
2. Governing body members' performance may be evaluated by the chair.
3. Only executive directors' performance needs to be evaluated.
4. The company secretary's performance should be evaluated at least once a year.
5. Performance evaluation results should not be disclosed, with the exception of disclosure to the governing body.
6. The governing body should appoint the CEO.
7. The governing body should formally evaluate the performance of the CEO every two years.

United Nations Global Compact

There are ten principles of the United Nations Global Compact. The ten principles are extremely important to MM, and they take a principled approach to corporate sustainability.

Purchase of spare parts

MM uses expensive equipment for its mining operations and thus holds large quantities of spare parts for the mining equipment. The spare parts are accounted for using a computerised inventory recording system.

One of the junior trainee accountants has prepared the system description for purchasing spare parts after obtaining confirmation from the relevant personnel involved in the acquisitions and payments cycle. The system is as follows:

1. The store manager adds spare parts details to the master file after approval is received from the purchasing manager. The store manager does not perform the

process of deleting parts that are no longer in use. An authorised list of approved suppliers is not available, all suppliers from which spare parts were previously purchased remain in the system.

2. Computerised software automatically generates orders at 17:00 each day.
 - The system automatically identifies spare parts that need to be reordered.
 - This is an automated process whereby quantities on hand per the system are compared to the minimum re-order levels indicated in the master file.
 - The system automatically generates a pre-numbered order in duplicate.
 - All orders are sent to the purchasing department the next morning.
 - The purchasing manager and the store's manager receive a daily listing of all orders generated by the system.
3. The store manager reviews and approves every order on the daily listing and the approved orders are sent through to the purchasing clerk.
 - The purchasing clerk dispatches the original order to the relevant supplier as identified by the system.
 - The copy of the order is sent to the accounts payable clerk.
 - Each authorised order's status is changed to "pending" by the accounts payable clerk on the computer system.
 - All authorised orders are therefore reflected as "pending".
4. When the spare parts are received, the receiving clerk in the storeroom enters the purchase order number into the computer system on one of the online terminals (using his unique username and password). All pending orders are displayed on the system.
 - The receiving clerk selects the order relating to the delivery and records the quantity received and then takes the unopened boxes to the storeroom.
 - Pre-numbered goods received notes (GRNs) are printed in duplicate by the computer for all recorded receipts. No price details are reflected on the GRN.
 - The original GRN is forwarded to the supplier, and a copy is sent to the accounts payable clerk.
 - The computer system automatically changes the order status to "complete" once the total quantity ordered has been received.
 - The system automatically updates the records of inventory quantities on hand, and the standard cost of inventories is updated.
5. A temporary file is used where the copy of the order and the GRN are filed in sequential order by the accounts payable clerk.
 - Upon receipt of the invoice from the supplier the accounts payable clerk records the order number on the system. Details of the GRNs and the prices are shown on the screen. If the status of the relevant order is reflected as "complete" the accounts payable clerk compares the details of the quantities and prices reflected on the screen with the invoice and the GRN.
 - Price change lists are printed out daily and approved by the purchasing manager.
 - After price change approval, the invoice is recorded against the order and the program credits the relevant suppliers accounts with the total amount on the invoice.

- If the status of the order is reflected as “pending”, the invoice is filed in a temporary file. These invoices are compared to a list of completed orders daily.
6. A report of partially completed orders outstanding for longer than four weeks is produced every working day.
- The printout is sent to the purchasing manager, who contacts suppliers regarding the outstanding quantities. If the supplier is unable to complete the order, then the purchasing manager has the authority to change the status of the order to “complete”.
 - A daily report of orders whose status has been changed to “complete” is prepared for the attention of the store manager.
7. At the month’s end, the system
- debits the inventory control account in the general ledger with the aggregate standard cost of the month’s inventory receipts;
 - debits the VAT input control account with the applicable VAT;
 - credits the accounts payable control account in the ledger with the aggregate amount of the month’s inventory purchases processed; and
 - calculates the price variance for each completed order and these amounts are posted to the price variance control account.

YOU ARE REQUIRED TO:

- 1.1 With reference to the information included under the heading **Companies Act No. 71 of 2008 and the King IV Report:**

Explain the requirements that should be satisfied before Ms Tar can be removed as a director of MM. (8)

- 1.2 With reference to the information included under the heading **Companies Act No. 71 of 2008 and the King IV Report:**

Indicate whether each of the statements listed (1 to 7) is correct or incorrect. You must justify your answer. (14)

- 1.3 With reference to the information included under the heading **United Nations Global Compact:**

Discuss three principles particularly relevant to a mining company in the South African context. (4.5)

Communication skills: Clarity of expression and logical flow of arguments (1)

- 1.4 With reference to the information included under the heading **Purchase of spare parts:**

Draft an email to the management of MM to be reviewed by the audit partner in which you:

- **identify** the control **weaknesses** related the purchase of spare parts; (9)
- **list** the business **risks** arising as a result of the identified weakness (**Note:** there may be more than one risk linked to an identified weakness; and (13.5)
- **list** the **controls** that MM can implement to prevent these risks. (9)

Present your answer in a tabular format

Weakness (Max 9 marks) 1 mark for each weakness	Business risks (Max 13.5 marks) 1.5 marks for each business risk	Controls to be implemented (Max 9 marks) 1 mark for each control
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Communication skills: Presented in tabular format (1)

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