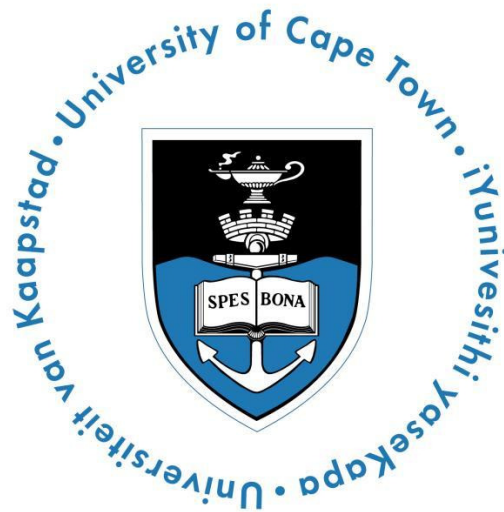


**UNIVERSITY OF CAPE TOWN**  
**DEPARTMENT OF ACCOUNTING**



**WORKBOOK 2011**

**INF2004F**

**ACC2012W**

**ACC2018S**

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**Team members within the Department of Accounting:**

**Shelly Herbert  
Tessa Minter  
Ilse Lubbe**

# Chapter 1 Introduction

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The aim of the projects supported by this Workbook is to gain a better understanding of the *business activities and controls* in a computerised financial information system that are used in operating a business and to illustrate how the principles taught in Information Technology in Business (INF2004F); Financial Reporting II (ACC2012W) and Control of Financial Information Systems (ACC2018S) are all important in the successful operation of any business to meet the internal control objectives.

## Objectives of the projects and assignments included in this Workbook

The projects and assignments in this workbook are designed to ensure that you:

- Are able to integrate and apply knowledge taught in three different courses;
- Are able to gain an understanding of business activities and controls in a business environment;
- Are introduced to a commonly used computerised accounting package;
- Are able to use a computerised accounting package to open a set of accounts for a new company, process basic journal entries to the general ledger of the company, make use of basic subsidiary ledgers, and produce a trial balance;
- Are able to apply your knowledge of IFRS to ensure that the transactions are correctly recorded and balances are correctly recognised;
- Are able to produce part of a set of financial statements for the company, by printing the statements of financial position and comprehensive income supplied by the software package;
- Are able to define, identify and apply the objectives and principles of internal control to the design of both manual and computerised financial information systems;
- Are able to identify the risks and benefits of a specified financial information system environment;
- Are able to identify the weaknesses in a specified financial information system and propose appropriate recommendations.



# Commitment required by students to make this Workbook a success



Whichever career you follow in the future you will probably be using business systems and controls and any managerial/ownership position will involve you designing, monitoring, evaluating, improving or correcting a part of, or an entire system.

You are subconsciously developing and using this ability when you review your personal administration e.g. paying restaurant bills, payment of household accounts, applying for tax refunds (hopefully) etc.

Ways to use this workbook to assist you in developing these skills and abilities:

1. You must take responsibility for your own learning and participate in and contribute to the questions raised in this workbook and in lectures and tutorials.
2. Reflect on the what, why, where and how while participating in everyday activities like queuing to buy movie tickets, ordering pizzas via your cell phone, paying your varsity fees, buying groceries at the supermarket, using internet banking, and sharing information on "Facebook".
3. Identify related aspects or developments in the popular press on a regular basis e.g. business impact of King III, fraud and security breaches and possible solutions that impact on the business operations.
4. Do the assignments, objective tests and other assessments from first principles.
5. Attend and reflect on lectures during which we will develop the key concepts to apply in finding your solution to the assignments, tutorials and objective tests.

# Chapter 2 Understanding a business

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When any prospective entrepreneur and business owner is looking to start a new business there are many issues that need to be considered and addressed.

You, as the entrepreneur, need to identify a “gap” in the market that you believe you can fill – something that you identify as needed by the general public, or a specific group of individuals or companies, which you have the necessary skills to provide.

Once you have identified a gap you need to conduct research to determine if you can take advantage of it – will your idea of a product or service be viable? Will the market respond positively to your new venture? Are there skilled people available that can help you in providing the necessary services, or can new people be trained? Is there competition that can result in your new venture failing?

These questions, and many more, need to be answered by you as a prospective entrepreneur and a business plan needs to be drawn up. All of these questions are essentially business risks that need to be addressed in the business plan. When you are confident in your product or service you will need to start the process of formally registering your business and also finding funding that will make your new business viable.

Your next step is to decide on the *type of business entity* that is most suitable for the type of operation, size and level of liability that you as owner are willing to take:

- Sole proprietor
- Partnership
- Company
- Close Corporation

The *objective* of any business is widely regarded as being to maximise the wealth of its owners. This objective equally applies to companies, close corporations, partnerships and sole traders. You may also argue that the objective of a business is to take care of its employees, protect the environment or operate responsibly within the wider social context, and these are all noble and valid objectives as well. Normally a business must achieve all of its main objectives to maximise owners’ wealth.

All companies and close corporations are required to be registered with the Companies and Intellectual Property Registration Office (“CIPRO”) and can only start operating once the registration process is complete. The process includes things like reserving a unique name for the company which is not too similar to existing companies’ names, and which is not offensive in any way, and also completing forms which include all the details of the company and its shareholders or members. These legal processes require a comprehension and application of business and, in the case of companies, company law. You will learn more about these applicable laws in Business Law I (CML1004), Business Law II (CML 2010) and Company Law (CML2001).

**The new *Companies Act, 2008*, allows for the following types of companies:**

A company may be classified as a profit company, or a non-profit company.

Profit companies are further classified as:

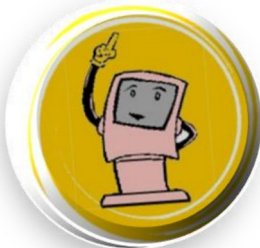


- State-owned company ('SOC')
- Private company ('Proprietary Limited')
- Personal liability company ('Incorporated')
- Public company ('Limited')

In this workbook we will continue to focus on the private company as a business entity.

*Funding* of your business can either be obtained through a financial institution, or you can use your own funds. Once a company is established it can also use private equity funding or offer shares to the public to raise funds to expand on its existing business. Most new ventures use a combination of the shareholders own funds and lending. In order to borrow any funds a business plan will need to be presented which will assure the potential lender that your business is a viable investment.

Once all of this is complete, and your new company is registered, you become the business owner and shareholder and your business can start with its operations. However, it is advisable to properly set up *systems and controls* within a company before operations begin. By setting up the systems and controls when your business is small, you will be putting the correct structures in place to ensure that your business can grow into a medium to large sized company. The typical structure of a medium to large business is illustrated in Diagram 1.1 – Typical Medium / Large Business Organisation.

On your path to becoming a successful entrepreneur you will need to learn many things. This Workbook focuses on the following courses, which will help you gain some of the knowledge that you need:

<p style="text-align: center;"><b>INF2004</b></p> 	<p style="text-align: center;"><b>ACC2012W</b></p> 	<p style="text-align: center;"><b>ACC2018S</b></p> 
<ul style="list-style-type: none"> <li>• Introduction to Pastel Accounting</li> <li>• IT and the Accountant</li> <li>• Software Acquisition and Process Modelling</li> <li>• Computer Crime and Security</li> <li>• Data modelling and Business Intelligence</li> <li>• Business Processes and Enterprise software</li> </ul>	<ul style="list-style-type: none"> <li>• GAAP standards and principles</li> <li>• Preparation of financial statements, that are decision useful for the users of those financial statements</li> </ul>	<ul style="list-style-type: none"> <li>• Management and control of financial information systems</li> <li>• Evaluation of risks and benefits</li> <li>• Corporate governance issues (also ACC3022H)</li> </ul>

# Typical Medium / Large Business Organisation

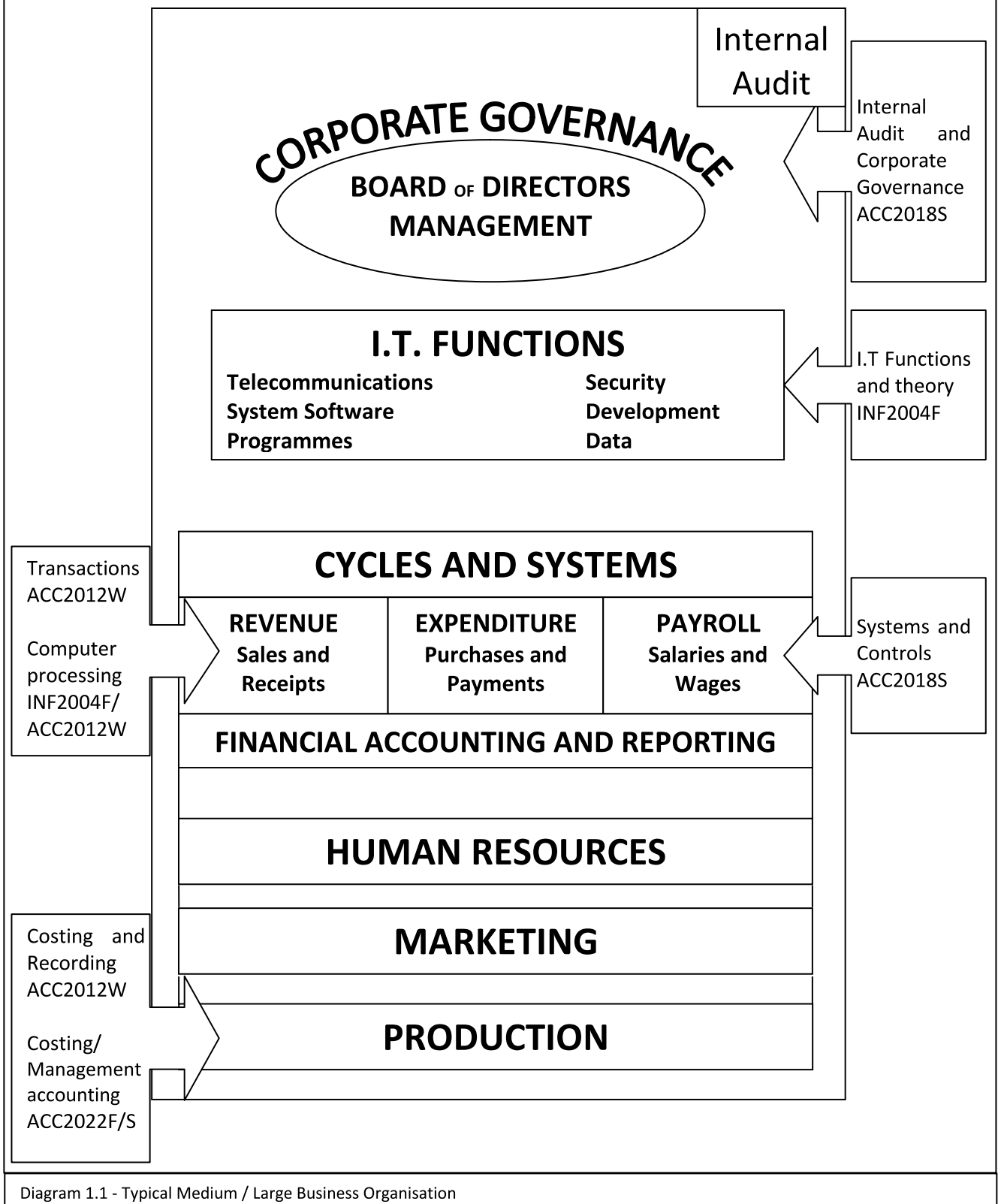


Diagram 1.1 - Typical Medium / Large Business Organisation

Each aspect of a business is dealt with in a separate part of your studies, but they will all come together in the running of a successful business.

# Chapter 3 Systems and Controls

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All companies face risks in the operation of their business. These range from risks that their products will not sell, to the risk that transactions won't be recorded correctly. Companies take risks to reap rewards, but these risks must be managed to achieve a level of risk acceptable to the company.

Overall business risks are managed by management, and in a bigger company, by the board of directors. These arise from the questions that you had to ask yourself before starting your company:

- Will your idea of a product or service be viable?
- Will the market respond positively to your new venture?
- Are there skilled people available that can help you in providing the necessary services, or can new people be trained?
- Is there competition that can result in your new venture failing?

Managing these risks forms part of the corporate governance of a company.

In this workbook we will be focusing on the risks that relate to suppliers, products and services (the expenditure cycle) and customers (the revenue cycle).

These **risks** include (but are certainly not limited to):

- the risk that transactions aren't recorded correctly;
- products aren't purchased at the best price;
- interest is charged by creditors due to late payment of their accounts;
- inventory is stolen due to lax security;
- or customers are charged the incorrect prices or are offered credit where they shouldn't be.

In order to manage these risks, the management of a company need to put in place systems and controls, or processes. The purpose of systems and controls is to prevent, detect and correct problems that arise. Systems and controls apply to all business cycles (refer to Diagram 1.1 - Typical Medium / Large Business Organisation). The focus of this Workbook is the Revenue, Expenditure and Payroll cycles. These are not the only cycles that can exist in a business, for example a manufacturing company will also have a production cycle. The financial accounting and reporting cycle forms an overlay to the operational cycles.

ISA 315.A84 (2011 SAICA Handbook) identifies that business **processes** are designed to:

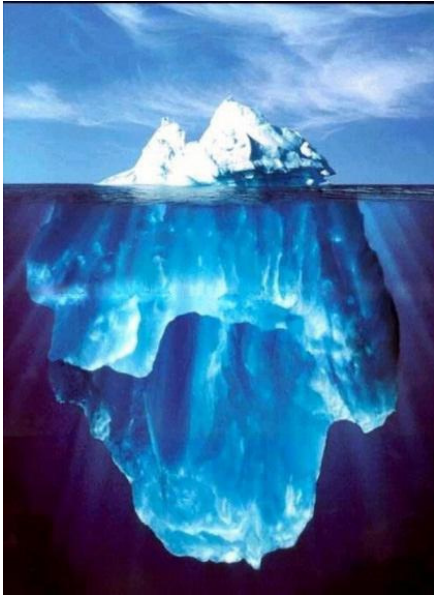
- Develop, purchase, produce, sell and distribute a company's products and services;
- Ensure compliance with laws and regulations; and
- Record information, including accounting and financial reporting information.



Systems and controls are essential to the functioning of any business. The following are some examples of system failures:

**FIFA Scandals**

**Enron**  
"Demise of audit firm Arthur Andersen"




**Barings Bank**  
Nick Leeson  
"Rogue Trader"

**Fidentia**  
Arthur Brown

**Home Affairs**  
"SA passport holders now require visas to Britain until processes are sorted out"


**Parmalat**  
Ongoing

 REMEMBER: There is a reason why a picture of an iceberg has been chosen. What do you think it is?

 REMEMBER: The above examples have had a major impact at a global, national and personal level. You are not expected to know the details but are encouraged to google the key words for further information.

**Exercise**

As a class let's think of some other examples



# Is African cyber crime on the rise?

By Kirsten Doyle, ITWeb portals editor  
Johannesburg, 18 Mar 2010

**Read in this story**    Skewed statistics?    Criminal intent

The FBI Internet Crime Complaint Centre's (IC3's) latest report reveals a fourth African country has been added to the top crime perpetrator list.

"This year, SA ranked number seven, moving down a place from number six last year, and Cameroon entered the rankings first time at number nine," says Information Security Group chairman Craig Rosewarne. "This begs the question, are attacks from African countries on the increase? Or are these countries, including SA, being used as a launch pad to target other countries?"

Either way, Rosewarne believes attacks from Africa are on the increase. "Do the maths; 336 655 complaints received, with countries accounting for roughly 10%. This equates to about 36 000 complaints from Africa. If \$559 million was lost in total, \$56 million would be thanks to African cyber criminals. In addition, bear in mind that these were only the crimes reported to the IC3. What about the majority that were swept under the carpet?"

Rosewarne says in SA, the majority of crimes go unreported, due partly to ineffective policing systems, and partly because victims are yet required by law to report crimes of this nature.

Ghana was on the IC3 perpetrator list in 2008 at number seven, and this year has moved to sixth place. Nigeria is the fourth country on the list at third place for the last two years.

## Skewed statistics?

However, Dominic White, a consultant for Sensepost, says it needs to be borne in mind that the perpetrator location is based on what an attacker told the victim. "It's quite possible that Africans were using SA as a fake location to appear legitimate, or because international shipping or banking in SA is better. However, the criminal is, in fact, located elsewhere."

He says the report cautions readers to note that throughout the document, perpetrator demographics represent information provided to the victim by the perpetrator so actual perpetrator statistics may vary greatly.

In addition, he says the fact that the vast majority of cyber crime is not reported would impact all these statistics, as a clear picture cannot be given without all the information. He adds that, although SA is ranked number seven, only 0.15% of the total complaints were from SA, and only 0.7% of perpetrators were said to be from SA. "Compared to the US's 92.02% of complainants and 92.02% of perpetrators, we are less than small fry."

Costin Raiu, chief security expert, EMEA, global research and analysis team at Kaspersky Lab, believes that, when it comes to the report takes a few factors into consideration, such as the final destination of the money as reported by the banking institutions. "Therefore, I do think the statistics reflect the reality. In addition, even if Nigerian scammers, for example, used intermediaries to receive the parcels, I think that can be considered as SA-related, since at least one criminal gang member was located there."

## Criminal intent

Speaking of cyber crime growth, which the report claims has doubled in 2009 from the previous year, White says the report does not provide a reliable indicator of this.

"The large increase in reporting this year is quite possibly due to the first FBI-themed scams that appeared in 2009. The IC3, which accepts online Internet crime complaints, is a partnership between the FBI, the National White Collar Crime Centre and the Department of Justice Assistance. Due to its involvement, FBI scams would have led to public awareness and publicity around the IC3's complaint mechanism."

He says this was reflected in the statistics with reported FBI scams topping the list. "They make up 16% of the reported number but in no way represent 16% of actual online fraud and are skewing the results. An increase in reporting does not necessarily mean an increase in crime."

## Tender fraud may top R25bn

Oct 27 2010 - Troye Lund (*Fin 24*)

Cape Town - The National Treasury is investigating tender fraud to the value of R25bn and is considering imposing penalties equivalent to double the value of those found guilty of defrauding government's tender processes, Minister of Finance Pravin Gordhan said on Wednesday.

Delivering his medium-term budget policy statement in parliament, Gordhan said that clean administration plays a central role in the overall bid to fast-track South Africa's economic growth and cut unemployment by 15% in a decade.

The bid to eliminate corruption from government's supply chain management comprises five initiatives and regulatory reforms. These include:

- Increasing the state's ability to detect fraud early;
- Increasing public disclosure at all stages of the supply process in all spheres of government;
- Stiff penalties for those found guilty of manipulating tenders, officials included; and
- Enhanced tax compliance measures.

"Members of the House will be pleased to note that government has awarded preservation orders worth about R200m which include a Lear jet, a golf course, a holiday home, and a hotel.

"This is the result of cooperation and coordination of efforts between several investigative agencies," said Gordhan. He added that, as a result of these efforts, the taxman was beginning to see a change of heart among government's service providers.

"In a recent case, a firm which was paid R10m by a department for work that had not been done voluntarily returned the money to the fiscus.

"We will turn the tide on corruption and fraud. We will ensure that tax funds and government monies are spent wisely and managed with integrity," Gordhan told MPs, saying that government owed it to honest citizens and responsible taxpayers.

# Financial Accounting and Reporting Cycle

Within each cycle/system there is financial information that needs to be recorded, as well as information relating to products, customers, suppliers and employees, among other things. For each of these pieces of information there will be documents to support what is recorded. The recording of all of this information forms the financial accounting and reporting cycle. This cycle is in fact an information system that results in the production of financial statements.

In order to ensure reliable reporting to the users of financial information (including investors, employees, lenders and creditors) it is essential that the information reflected on the supporting documents is correctly reflected in the records of the company. In order to ensure this, controls are put in place to ensure that the information recorded and processed is reliable, which is often referred to as having integrity, which means it is **valid, accurate and complete**.

A valid transaction represents a real transaction that has taken place, for example the customer did actually receive the goods or service. If a transaction is recorded **accurately**, the details of the transaction are all correct, for example on a sales invoice the price and quantity of goods delivered, the calculations and any additional amounts added or subtracted (like VAT or discounts) are appropriate. **Completeness** implies that all the goods delivered or services performed are recorded timeously in the company's books.

Each of the business cycles (expenditure, revenue and payroll) is driven by business activities. These business activities fall into four categories: the **initiation** of a transaction, the **execution** of the transaction, the **recording** of the transaction and the **processing** of the transaction to produce the financial and management accounts.

Each of these business activities will require supporting documentation, but in this modern age, these documents can be in either electronic or hard copy (paper) format. Where documents are electronic, a company needs to have additional controls in place to ensure that they are valid, accurate and complete, due to the increased susceptibility towards tampering.

ISA 315.A81 (2010 SAICA Handbook) refers to the following as **objectives** of a **financial reporting system**:

- Initiate, record, process and report transactions to account for the assets, liabilities and equity of the company;
- Resolve incorrect (whether through fraud or error) processing of transactions;
- Record and provide accountability for system overrides or bypasses of controls;
- Transfer information from transaction processing systems to the general ledger;
- Capture information for events other than transactions (for example depreciation and impairments); and
- Ensure that information required to be disclosed is accumulated, recorded, processed, summarised and appropriately reported in the financial statements.

Refer to Diagram 2.1 - The Basic Financial Accounting and Reporting Cycle, for an overall look at the most common documents required, and the flow of information for the financial records of the company.

# The Basic Financial Accounting and Reporting Cycle

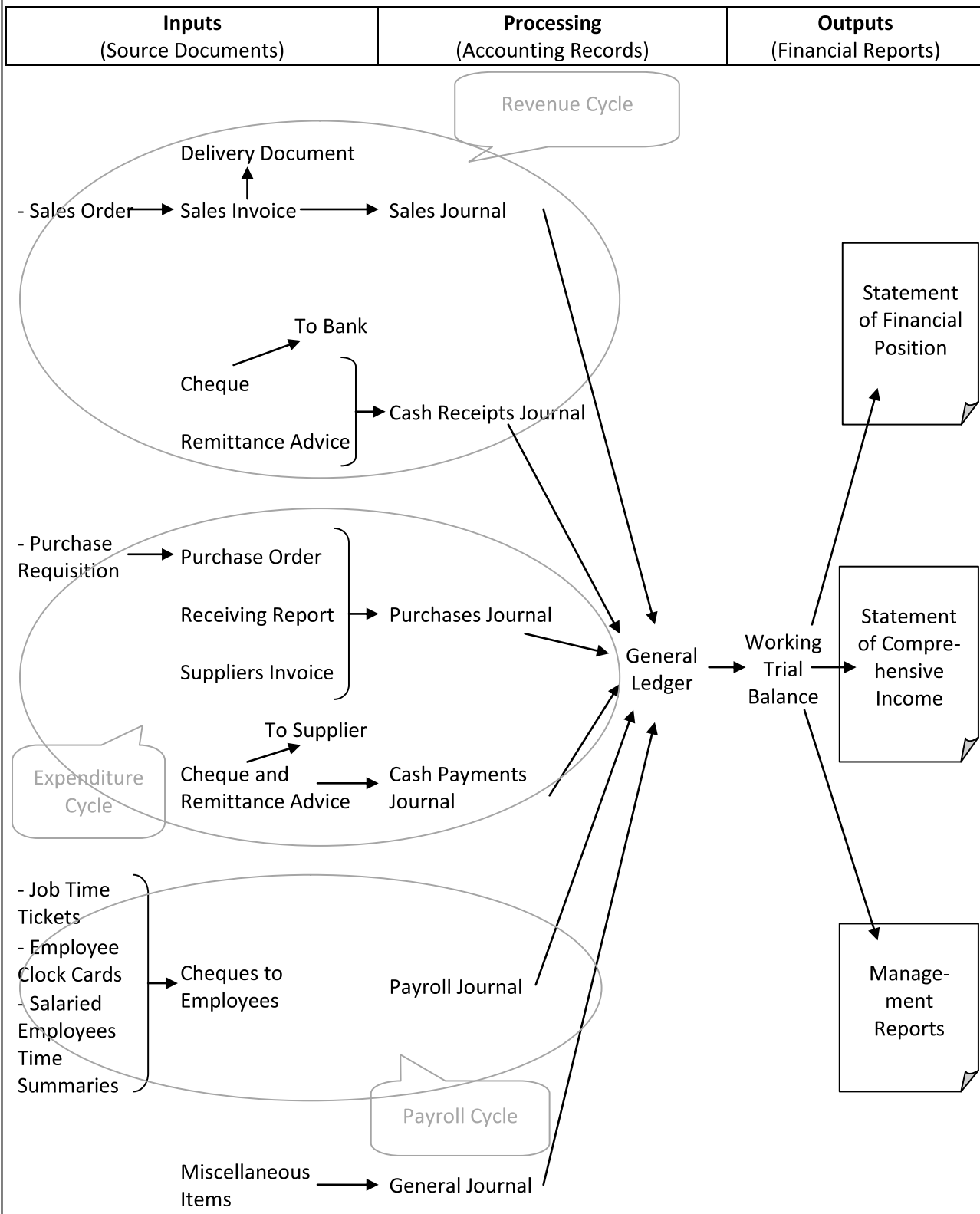


Diagram 2.1 - The Basic Financial Accounting and Reporting Cycle

## Example: Revenue Cycle

To better understand the processes and systems described above, we will examine the revenue cycle. The revenue cycle represents all the events that occur in the selling of a company's product or service.

	INITIATE	EXECUTE	RECORD	PROCESS
<b>BUSINESS ACTIVITIES</b>	Ordering of goods or services by customer	Delivery of goods or performing of services	Preparing and issuing an invoice	Information becomes part of financial and management accounting system
<b>SUPPORTING INFORMATION FLOW</b> (either electronic or hard copy)	Order	Delivery note	Sales invoice	Sales Journal (record sale) Debtors Ledger (post balance to debtors account) General Ledger (post every aspect of transaction: Sales a/c VAT a/c Debtors control a/c Commission a/c Bank a/c)



### IFRS UPDATE:

Revenue arises from the following transactions and events:

- Sale of goods (whether purchased for resale, or produced by the entity for the purpose of sale);
- The rendering of services;
- Construction contracts in which the entity is the contractor;
- The use by others of the entity assets yielding interest, royalties or dividends.

Revenue should be recognised when the risks and rewards of ownership have transferred.

Revenue should be measured at:

The gross inflows of economic benefits received and receivable by the entity, i.e. excluding VAT  
The fair value of the consideration received or receivable.

*IAS18, Revenue, and IFRS for SMEs, Section 23, Revenue*

## Example: Expenditure Cycle

The same principles apply to the expenditure cycle. The expenditure cycle represents all the events that occur in the purchasing of inventory and all other expenses that are incurred by a company.

The information flow is slightly different for items purchased by the company, for example inventory and stationery, and services that are consumed by the company and charged later.

For purchases (for e.g. inventory, stationery, etc):

	<b>INITIATE</b>	<b>EXECUTE</b>	<b>RECORD</b>	<b>PROCESS</b>
<b>BUSINESS ACTIVITIES</b>	Ordering of inventory, stationery or other item	Receiving of ordered goods	Receiving the invoice	Information becomes part of financial and management accounting system
<b>SUPPORTING INFORMATION FLOW</b> (either electronic or hard copy)	Purchase requisition and Purchase order	Goods received note	Suppliers invoice	Purchase Journal (record purchase) Creditors Ledger (post balance to creditors account) General Ledger (post every aspect of transaction: Purchases a/c Stationery a/c Non-current assets a/c (etc), VAT a/c Creditors control a/c Bank a/c)

For services consumed (for e.g. rental, telephone, etc):

	<b>INITIATE</b>	<b>EXECUTE</b>	<b>RECORD</b>	<b>PROCESS</b>
<b>BUSINESS ACTIVITIES</b>	Sign a contract detailing conditions of service	Use service	Receiving the invoice	Information becomes part of financial and management accounting system
<b>SUPPORTING INFORMATION FLOW</b> (either electronic or hard copy)	Contract	Records kept by supplier	Suppliers invoice	Purchase Journal (record invoice received) Creditors Ledger (post balance to creditors account) General Ledger (post every aspect of transaction: Water a/c Electricity a/c Telephone a/c (etc) VAT a/c Creditors control a/c Bank a/c)



## IFRS UPDATE:

Inventories are ASSETS that are held for sale in the ordinary course of business, in the process of production for such sale, or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventory should be recognised when the risks and rewards of ownership have transferred.

Inventory should be measured at the lower of cost and estimated selling price less costs to complete and sell.

*IAS2, Inventories, and IFRS for SMEs Section 13, Inventories*

### Example: Payroll Cycle

The payroll cycle represents the hiring and firing of staff, the recording of time worked and the eventual payment to staff of their salaries or wages.

	INITIATE	EXECUTE	RECORD	PROCESS
<b>BUSINESS ACTIVITIES</b>	Hiring of staff	Time worked by staff	Issuing monthly (salaries) or weekly (wages) payslips	Information becomes part of financial and management accounting system
<b>SUPPORTING INFORMATION FLOW</b> (either electronic or hard copy)	Employment contract	Job time tickets Employee clock cards Salaried employees time summaries	Payslip	Payroll Creditors Ledger (post balance to creditors account e.g. SARS) General Ledger (post every aspect of transaction: Salaries a/c Wages a/c Creditors control a/c Bank a/c)

In the case study in Chapter 4 you will have the opportunity to see many of these documents. The case study does however focus on the recording and processing of financial information, with little emphasis on the initiation and execution. Don't forget that in a real business situation there would be nothing to record if transactions aren't first initiated and executed.

# Typical Medium / Large Business Organisation

Objectives  
Internal Controls

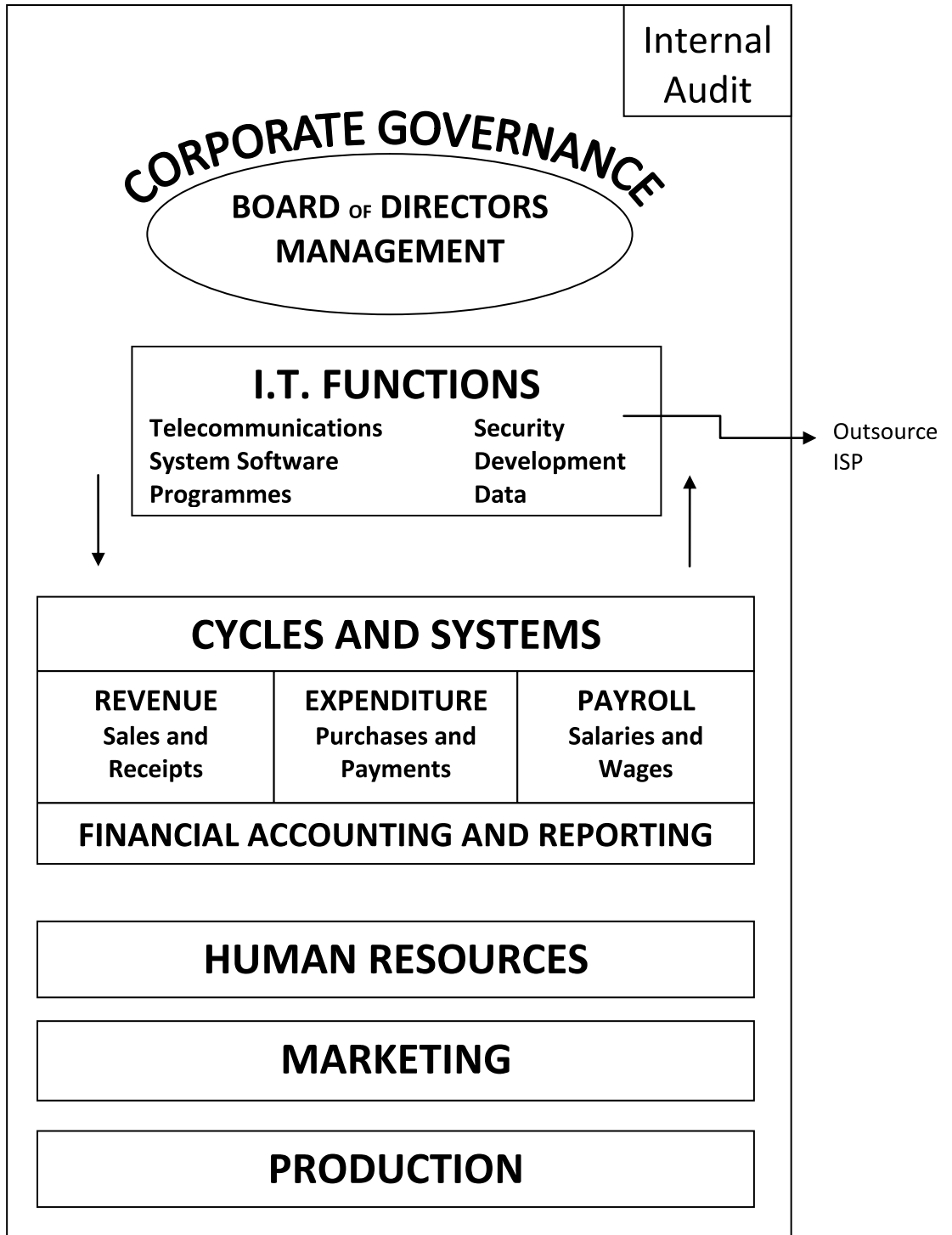


Diagram 5.1 - Typical Medium / Large Business Organisation

# Chapter 4 Systems of Internal Control

Chapter 4 will form the basis of the module “Computerised Systems and Controls” covered in ACC2018S, and will be worked through in lectures.

## 1 Introduction

### OBJECTIVES/OUTCOMES

By the end of this module you should be able to:

- Define, identify and apply the objectives and principles of internal control to the design of both manual and computerised financial information systems.
- Identify the risks and benefits of a specified financial information system environment.
- Identify the weaknesses in a specified financial information system and propose appropriate recommendations.

To be able to do this we need to be able to answer the following questions:

Section 2	<b>what</b> (objectives) has gone or could go wrong in any system of recording, be it your test or exam marks, details on your ID or accounting entries in the general ledger,
Section 3.3	<b>why</b> (cause/risk) it went wrong
Sections 3.1 and 3.6	<b>where</b> (information systems) it went wrong and
Sections 3.2, 3.4 and 3.5	<b>how</b> (control environment/control activities/monitoring) to reduce or <i>prevent</i> the chances of it happening and/or identify or <i>detect</i> if it has happened and where necessary <i>correct</i> the situation.

Whichever career you follow in the future you will probably be using a system and any managerial/ownership position will involve you designing, monitoring, evaluating, improving or correcting a part of, or a whole system.

This ability is subconsciously used when you review your personal administration like restaurant bills, payment of accounts, tax refunds (hopefully) etc.

### PRESCRIBED READING

- Auditing Notes for South African Students, Jackson & Stent, Chapters 5, pages 5/1-5/9, 7, pages 7/9-7/13, 8, pages 8/1-8/39 and 9.
- SAICA Handbook Volume 2, 2010/2011 ISA 315 Appendix 1 refer to Appendix B, page 2.

### RECOMMENDED READING

- Puttick and Van Esch, The Principles and Practice of Auditing, 9th Edition, Juta, Chapter 10 (ACC3022H Auditing I Prescribed text 2010)
- Core Concepts of Accounting Information Systems, Bagranoff, Simkin and Norman (10th Edition)
- Information Systems/Technology sections in:
  - Accountancy SA
  - Business Press, FM Campus, Daily/Weekend Newspapers, Time Magazine, Newsweek
- [www.isaca.org](http://www.isaca.org)
- <http://www.zaypay.com/>
- SAICA Handbook volume 2 2009/2010 : IAS 315 “Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment”.

## 1.1 Lecture outline for ACC2018S Module

### 1. Introduction

- Example to illustrate the objective of the module “R1 million to spend”
- Examples to illustrate the relevance of the module: Public Failures “Is African Cyber Crime on the Rise?”

Determine contract objectives.

Review examples of exam/test questions

Identify the relevance of the module to the CFIS/Commerce syllabus

- Overview of an organization

### 2. Internal control objectives

Determine the purpose of internal control

Determine the internal control objectives as they relate to financial accounting systems

- Example: Populaire's Furnishings (Pty) Ltd purchase invoice
- Exercise: Restaurant Bill

### 3. Internal Control Components.

Overview of the Internal Control Components

#### 3.1 Explanation of what is meant by a financial information system

- Exercise: Identify business activities within a business
- Example: Identify both expenditure and revenue cycles within a household furniture company
- Draw up a framework for a computerised financial information system from the macro view to a detailed example of a revenue cycle
- Identify the key computer aspects that are relevant to a financial information system
- Examples of :
  1. Client Server
  2. Online batch processing
  3. Online uploading downloading
  4. Online memo processing
  5. Masterfile update

#### 3.2 Control environment

Identify relevant areas

#### 3.3 Risks

Overview: Examples of different types of risks from popular publications

Determine the types of *risks* in a financial information system

Determine the source of risks

Develop a framework to address risk

- Example: Determine risks relating to certain objectives i.r.o. Populaire's Furnishings (Pty) Ltd
- Example: Identify controls to address the above risks using common sense

Determine the limitations of internal control

### 3.4 Control activities

**3.4.1** Derive the principles of internal control from common sense solution to the example in 3.3.

Expand on the principles of internal control into general and specific controls

Detail the controls within each of the areas using practical examples

**3.4.2** Determine different ways to categorise controls

- Example: Sorting the washing
- Example: IT Dependence
- Example Management Focus
- Example: Sink analogy
- Apply internal controls to a given scenario using a past exam question

**3.4.3** Identification of the application controls relating to the computerised processing stages of an application

- Example: Customer Master update controls for Populaire's Furnishings (Pty) Ltd.
- Example: Edit/validation checks: Populaire's Furnishings (Pty) Ltd.

**3.4.4** Determine the relevance and categories of *general IT controls*

- Example: Marks processing page 60
- For each category of general IT controls 3.4.4 a - e address the risk of fraud and error by suggesting possible controls to prevent and /detect and correct the risk.
- Example: Identify access controls from a video clip.

### 3.5 Monitoring

- Example: Populaire's Furnishings (Pty) Ltd.

### 3.6 Impact of use of third parties/ outsourcing/ service bureaux

- Determine associated risks and benefits
- Example: Identify possible controls for Populaire's Furnishings (Pty) Ltd. outsourcing their payroll

## 1.2 Summary of Types of Questions in the Overall Systems and Controls Module

**This module is about developing a way of thinking from a few basic principles and not a collection of content so...**

If you are feeling that you can't find the solutions to your tutorials in your notes or textbooks you are not alone nor are you any different from past students at this time of the academic year.

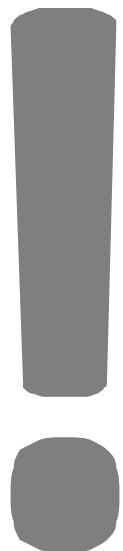
All the content you need is from your relevant Undergraduate lectures in INF 2004, Information Technology in Business, Financial Reporting and the current lectures. Please note Jackson and Stent is prescribed as your main reference and should you need any revision or clarification in an area you should refer to it and/or chat to your friends, your tutor or your lecturers.

A tutorial or exam example could require you to apply the basic systems concepts to the control over passwords in an organization. Please note that the academics have nowhere to look up the answers to the questions, we just have to apply the basic principles. In addition you are expected to integrate your knowledge from your other courses where applicable.

This isn't easy but it is a skill that is necessary in whichever career you hope to follow and the only way to develop this skill is to **think** about the issues guided by tutorial questions and then to **write out** the solutions blind to develop the ability to sort out and write down your thoughts in a logical and concise manner. This ability cannot be obtained through lectures and it is probably the ability that will most impact on your future progress at University and in your career.

Use the following guideline when answering questions or reviewing feedback.

- Identify what is required by the question
  - ▷ which focus:
    - *executive summary* (what the Board of Directors would be interested in)
  - or
    - *operational detail* (what the clerical staff would need for instructions)
  - ▷ what stage(s) of the business process are involved e.g. in the exam cycle are we focusing on the whole process from exam setting to capturing and publishing the marks or are we just focusing on the instructions to the secretaries once they have received the marked scripts for capturing.
- Consider the overall framework you are going to use – key words e.g.
  - ▷ initiation stage
  - ▷ prevent controls
  - ▷ management perspective
  - ▷ problems related to fraud but not error
- Write out sufficient detail
  - ▷ who?
  - ▷ for what?
  - ▷ when?



Poor solution “check the invoice’

Good solution – **inspect**, a **sample of sales invoices** for the **period under review** for the **sales manager’s signature**.

Each test/exam has a spread of questions or parts of questions so even if you pass the paper overall it is important to review your performance on individual parts of questions to ensure you can answer questions on both knowledge and its application. Your career will require you to be able to explain your knowledge and convince others of your stance and to apply that knowledge in new situations where there will be no guidance apart from basic principles.

In this course there are two broad areas of questions:

### 1. Risks/Benefits Of Various Computerised Environments

Including some on

- Management's/Internal audits point of view i.e. all internal control objectives
- Focus on a single risk e.g. fraud or unauthorized access
- Focus on a single objective e.g. confidentiality or validity (overstatement possibilities of wages)
- Asking you to identify additional risks.

### 2. Identifying Weaknesses In A System And Recommending Controls

These tend to require more detailed procedures answers and often require you to "spot the gaps" (find out what is missing) e.g. identify *additional* controls.

Questions include those focused on

- Frameworks for control
- A particular **objective** e.g. Overstatement of wages
- A particular **system** e.g. Accounts receivable
- A particular **stage** e.g. Price list amendments
- A particular **area of control** e.g. Application or General IT controls or both, Webtrust, Issuing Pins, Digital money
- A particular **type of control** e.g. automated or manual
- A particular **focus of control** e.g. prevent or detect and correct or management.

Therefore look for these key words in the requirement of the question.

If the required just said "controls" then the thought process should be: "Does this refer to all the control components or just control activities?"

If it is just control activities then "Are general IT and application controls relevant in this situation?"

The controls you give should show the examiner that you are aware of the range available by giving **prevent** and **detect** controls and these will include those that review/reconcile computer output, **manual dependent** controls, **manual independent** controls including reconciling pre computer info to post computer info, physical custody, allocation of functions according to segregation of duty principles etc and **automated** controls. (controls that you could ask a programmer to include in the computer programme, eg Pastel)

**Examples of tutorial/test /exam question requirements**

**YOU ARE REQUIRED TO:**

1. Identify the internal financial control objectives for (a) the revenue cycle or (b) just the invoicing module
2. Explain to management why it is not possible to prevent all fraud and error
3. Advise management of the risks and benefits to the business if they were to implement a new payment system.
4. Identify all the controls that should be in place to prevent errors and irregularities in the integrity of the sales system.
5. Identify the risks that could arise from outsourcing the processing function and the possible consequences for the business.

**The table below illustrates how to address the most common key words in the requirements of questions that are distinct but inter-related.**

<b>REQUIREMENTS</b>	<b>OBJECTIVES</b>	<b>RISKS (WEAKNESSES)</b>	<b>CONSEQUENCES</b>	<b>CONTROLS</b>
Poor solution	Check price	Price not checked	Price not checked	Check price
Good solution	Price is ACCURATELY reflected on invoice	Price used could be INCORRECT  Price used could be Too HIGH  Too LOW	Customers don't return to the shop  Lose out on potential profits	<ul style="list-style-type: none"> <li>•Independent check of invoice price to price list or standing data</li> <li>•Review GP%</li> <li>•Use of edit checks e.g. range check</li> <li>•Automate price eg bar code</li> </ul>

# 2 Internal Control Objectives



**Objectives** are the key to this course (ACC2018S) and to developing a way of thinking/framework. The objectives will be used to identify **risks and benefits** which in turn will determine the **business consequences** and the need for **controls**.

### Integrity/Financial Reporting

- Validity
- Accuracy
- Completeness

### Operational/Efficiency & Effectiveness & Economy

- Effectiveness: In terms of strategy
- Efficiency: Performance
  - ▷ Confidentiality
  - ▷ Availability
- Economy: Profitability
- Safeguarding resources
- Sustainability



### Compliance with legislation

- General: Laws applicable to all business
- Specific: Laws applicable to given business e.g. Populaire's Furnishings
- Internal: Laws within Populaire's Furnishings
- Tax laws: Refer to [www.sars.gov.za](http://www.sars.gov.za) to see a list of all the different tax types a company must comply with

The **key objective** relating to financial reporting is integrity.

### Exercise (?)

Develop the components of integrity using a supplier's invoice from the 'Pastel project'. Refer to the Appendix A, page 7



### Integrity

Valid



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Accurate



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Complete



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# 3 Internal Control Components

## Exercise in class

What is the **objective** of the **internal control components**?



**Key Issues to be addressed under each of the individual control components that follow.**  
(Refer ISA 315 Appendix 1 )



Source: Woolworths Holdings Limited, Annual Report 2008

### Control Environment (3.2)

- Sets the tone
- Affects entire business

### Risk Assessment (3.3)

- Possibility of Fraud and Error
- Affected by “business” & extent of “Computerisation”
- Apply at an overall business level or at an individual application level e.g. revenue cycle, payroll cycle.

### Control Activities (3.4)

- Principles SPRUP
- Can be selected according to various different categories
  - ▷ Prevent / detect & correct
  - ▷ Automated / manual dependent / manual independent
  - ▷ Management/ operational
- Levels
  - ▷ Application controls
  - ▷ General IT controls

### Information Systems & Communication (3.1)

- Supports business Activities
  - ▷ Initiate, execute, record / process, custody
  - ▷ Include Third Parties
  - ▷ At point of computerisation
    - ⇒ Input
    - ⇒ Processing
    - ⇒ Files (program, transaction, masterfile, standing data)
    - ⇒ Output

### Monitoring (3.5)

- Financial Information systems

# 3.1 Financial Information Systems

## 3.1.1 Computerised Systems

In a computerised environment similar business activities need to happen, but a computer system is used to record and process all or part of the information instead of it being done manually. Most companies today use a computerised system. These systems can vary from:

- information recorded in spreadsheets; to
- standardised off the shelf customised accounting packages that will do all the recording and processing and will also generate all the documents that are issued by the company (eg. Pastel for Populaire's Furnishings); to
- completely computerised systems (eg. Assignment 2018S Workbook 1 pg16)

The decision of what type of system to use will depend on the situation of the company. Refer to your INF2004F knowledge for more information on making these decisions.



REMEMBER: Business activities drive everything.

To assist you we will recall the business activities necessary to manufacture a piece of furniture see below.

### ***Exercise in class***

Think of the business activities that a company has to have to result in you being able to purchase your favourite item of clothing / sporting equipment / cell phone.



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Expenditure:

	<b>INITIATE</b>	<b>EXECUTE</b>	<b>RECORD</b>	<b>PROCESS</b>
<b>BUSINESS ACTIVITIES</b>	Ordering of inventory, stationery or other item	Receiving of ordered goods	Receiving the invoice	Information becomes part of financial and management accounting system
<b>SUPPORTING INFORMATION FLOW</b> (either electronic or hard copy)	Purchase requisition and Purchase order	Goods received note	Suppliers invoice	Purchase Journal (record purchase) Creditors Ledger (post balance to creditors account) General Ledger (post every aspect of transaction: Purchases a/c Stationery a/c Non-current assets a/c (etc), VAT a/c Creditors control a/c Bank a/c)

Revenue:

	<b>INITIATE</b>	<b>EXECUTE</b>	<b>RECORD</b>	<b>PROCESS</b>
<b>BUSINESS ACTIVITIES</b>	Ordering of goods or services by customer	Delivery of goods or performing of services	Preparing and issuing an invoice	Information becomes part of financial and management accounting system
<b>SUPPORTING INFORMATION FLOW</b> (either electronic or hard copy)	Order	Delivery note	Sales invoice	Sales Journal (record sale) Debtors Ledger (post balance to debtors account) General Ledger (post every aspect of transaction: Sales a/c VAT a/c Debtors control a/c Commission a/c Bank a/c)



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Once your furniture is ready, we will deliver to your home  
or office FREE.

**Williams 2-seater sofa**

Dimensions	Material	Colour	Price (incl VAT)
84h x 175w x 93d x 40sh	Bull Denim	Natural Cream	R3 500
	Henley Regatta	Red Strawberry	R4 500
	Henley Regatta	Black Putty	R4 500
	Henley Regatta	Blue Denim	R4 500
	Wavecrest	Blue Stripe	R4 500
	Natural Damask	Natural Cream	R4 999
	Mustang	Almond	R4 999
	Mustang	Sweetpea	R4 999
	Mustang	Sable	R4 999
	Mustang	Crimson	R4 999
	Mustang	Pumpkin	R4 999
	Donatella Cotton Linen	Natural	R4 999
	Beestripe	Black	R4 999
	Beestripe	Navy	R4 999
	Homet Silt	Black	R4 999
	Taya Jacquared Leaf	Bamboo	R5 500
	Taya Jacquared Leaf	Terracotta	R5 500
	Fathom	Wheat	R5 500
	Fathom	Desert	R5 500
	Fathom	Chilli	R6 500
Fathom	Cocoa	R6 500	
Sanderson Floral	Rosamund Sage	R6 999	

**Williams 3-seater sofa**

Dimensions	Material	Colour	Price (incl VAT)
84h x 230w x 93d x 44sh	Bull Denim	Natural Cream	R3 999
	Henley Regatta	Red Strawberry	R4 999
	Henley Regatta	Black Putty	R4 999
	Henley Regatta	Blue Denim	R4 999
	Wavecrest	Blue Stripe	R4 999
	Natural Damask	Natural Cream	R5 500
	Mustang	Almond	R5 500
	Mustang	Sweetpea	R5 500
	Mustang	Sable	R5 500
	Mustang	Crimson	R5 500
	Mustang	Pumpkin	R5 500
	Donatella Cotton Linen	Natural	R5 500
	Beestripe	Black	R5 500
	Beestripe	Navy	R5 500
	Homet Silt	Black	R5 500
	Taya Jacquared Leaf	Bamboo	R5 999
	Taya Jacquared Leaf	Terracotta	R5 999
	Fathom	Wheat	R5 999
	Fathom	Desert	R5 999
	Fathom	Chilli	R5 999
Fathom	Cocoa	R5 999	
Sanderson Floral	Rosamund Sage	R6 500	



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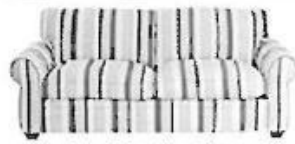
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Williams sofa from R3 500  
2-seater and 3-seater  
[full details](#)



Clifton sofa from R3 999  
2-seater and 3-seater  
[full details](#)



Cambridge sofa from R3 999  
2-seater and 3-seater  
[full details](#)



Monaco leather sofa from R6 999  
2-seater and 3-seater  
[full details](#)



Monaco corner leather sofa from R14 999  
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> [Frequently asked questions](#)  
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Extracted: [www.woolworths.co.za](http://www.woolworths.co.za), 25 February 2011

### **Exercise to be done in your own time**

Attempt to purchase an item of furniture from [www.gowfb.ca](http://www.gowfb.ca) (wholesale furniture brokers). What are the shipping costs if you were a Canadian resident?

Is delivery possible outside Canada?



# Computerised Financial Accounting and Reporting Cycle

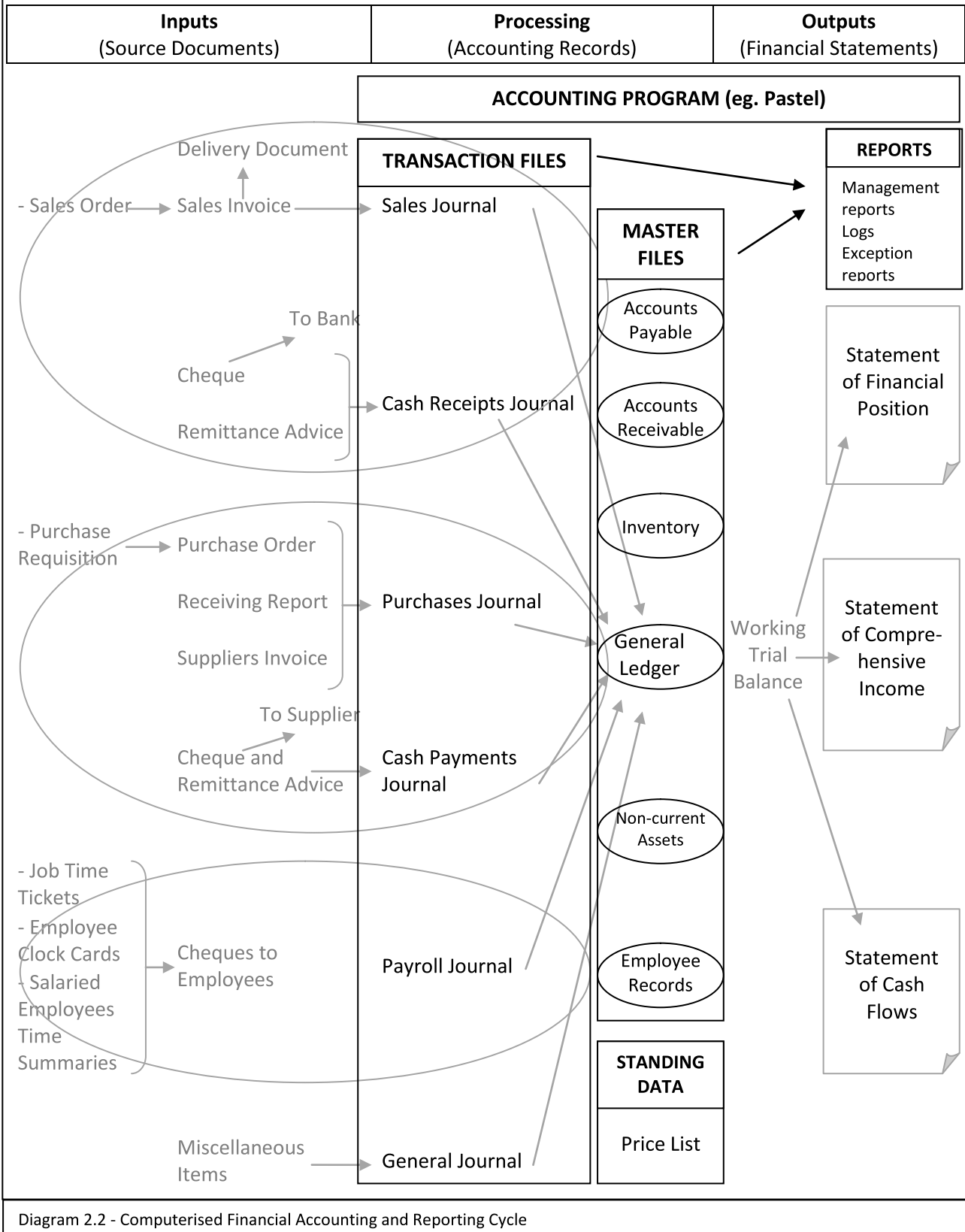
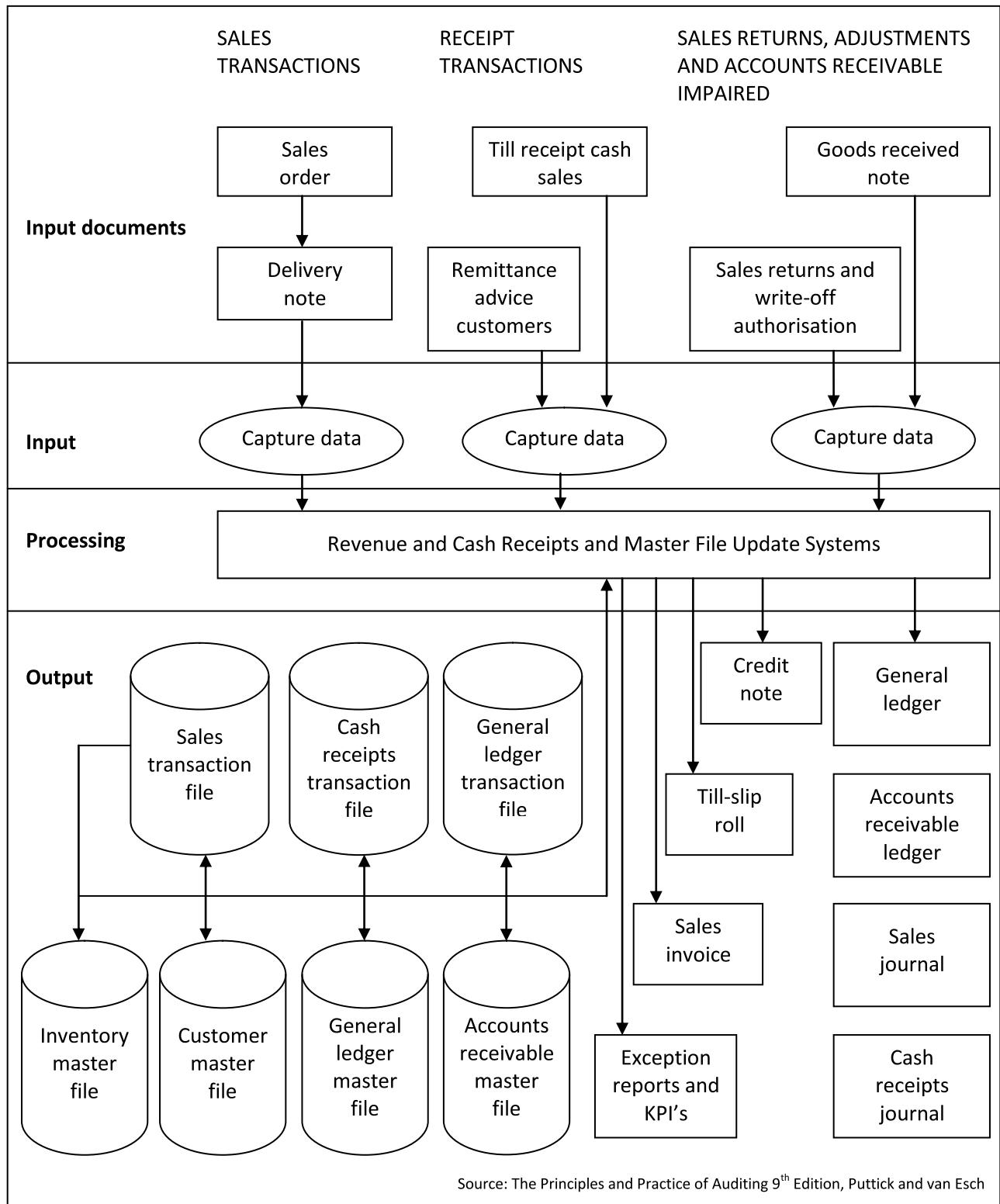
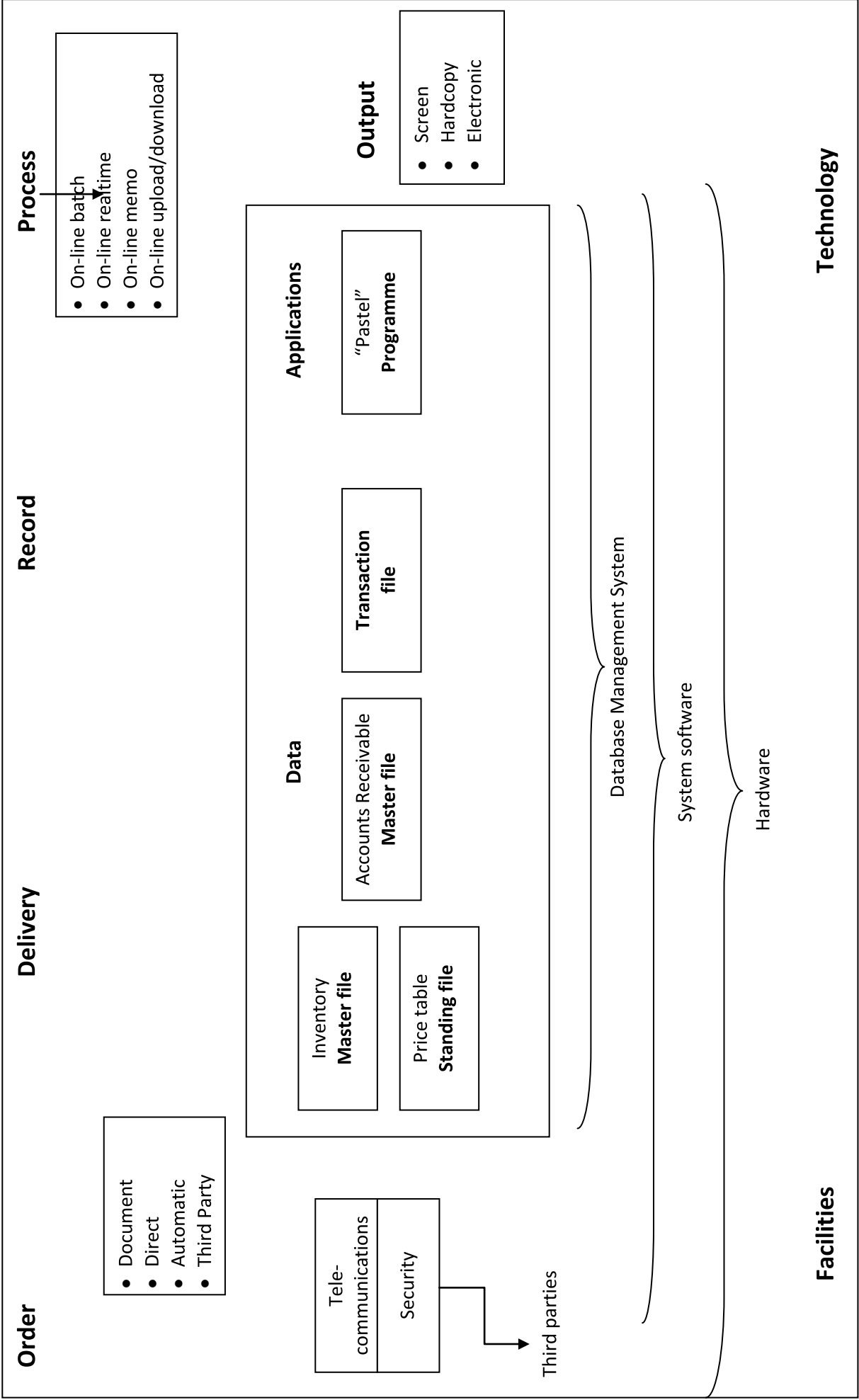


Diagram 2.2 - Computerised Financial Accounting and Reporting Cycle

### 3.1.2 Stages from point of computerisation

Each cycle will have greater detail than that shown in Diagram 2.2. As an illustration, the **revenue cycle** can be represented as follows:





### 3.1.3 IT Framework

<b>Stages:</b>	INPUT	PROCESSING	FILES	OUTPUT
		On-line Batch	Program	Hardcopy
		On-line Realtime	Transaction	Screen
		Memo	Masterfile	Electronic
		Upload	Standing Data	
		Download		

#### ***Exercise in class***

Consider the various types of inputs (sources) of sales for an organisation like a bookstore eg. Exclusive Books



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#### ***Exercise to be done in your own time***

Consider what was relevant to Populaire's Furnishings Pastel project in ACC 2012W



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**Components:** DATA APPLICATIONS TECHNOLOGY FACILITIES PEOPLE

#### ***Exercise to be done in your own time***

Consider these components as they might apply to

- Populaire's Furnishings
- UCT marks processing



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Functions: READ ADD DELETE CHANGE

**Exercise to be done in your own time**

Check your personal access settings on Vula/various drives.



The following terms are explained by applying them to the Populaire's Furnishings example

<b>Field</b>	Line within a record that is used for a specific piece of information Eg. Customer name (Point of No Return CC)
<b>Computer record</b>	Record for individual people, products or transactions Eg. Customer details, consisting of many fields OR a sales invoice. Refer to Point of No Return CC column, Customer master files in Chapter 6
<b>Transaction file</b>	An accumulation of transaction records Eg. Collection of sales invoices = sales journal, think back to your Pastel project
<b>Master file</b>	An accumulation of individual people or product records Eg. Collection of customer records accounts receivable master file. Refer to customer master file in Chapter 6
<b>Standing data</b>	Data that is not updated by transactions, but is used in transactions Eg. Sales prices and discount rates

**Exercise in class**

Identify how these terms would apply to the Peoplesoft data base relating to the class list for CFIS?



Field: \_\_\_\_\_

Computer record: \_\_\_\_\_

Transaction file: \_\_\_\_\_

Master file: \_\_\_\_\_

Standing data: \_\_\_\_\_

**NOTE:** Before we summarise the key issues we need to refer to Additional reading: "Demystifying COBIT" in Appendix B.



## REMEMBER: Key Issues

- Business activities drive computer needs
  - Computerisation can take place at any point within the business cycle
- Populaire's Furnishings, Woolworths, internet airline purchase,  
[www.thefurniturewarehouse.net](http://www.thefurniturewarehouse.net)



### Input sources

- ▷ Document
- ▷ Direct
- ▷ Automatic
- ▷ Third Party



### Processing methods (Appendix C)

- ▷ Client server
- ▷ On-line batch/ uploading, downloading/ realtime/ memo



### Files

- ▷ **Data**
    - Transactions
    - Master files
    - Standing data/table files
  - ▷ **Applications** software
    - Integrated eg. Pastel, SAP, PeopleSoft/function specific eg. Human Resources Management, Customer Relationship Management, inventory
    - Purchased/in house
- } database



### Output

- ▷ Hardcopy
- ▷ Screen
- ▷ Electronic



### Technology

- ▷ System software e.g Windows, Linux
- ▷ Utilities e.g windows explorer
- ▷ Hardware e.g monitors, links, input devices, servers
- ▷ Communication methods
  - ⇒ LAN/ WAN/ VPN
  - ⇒ EDI
  - ⇒ Internet



### Facilities

- ▷ Specialised venues



### People

- ▷ Add
- ▷ Read/ Enquire
- ▷ Change
- ▷ Delete

Appendix C is attached as a revision of the different **types of processing methods** that can be used by a business, as discussed in INF2004F.

WHY? Because there will be different risks and benefits associated with each of them.

1. Client Server
2. Online batch processing
3. Online uploading downloading
4. Online memo processing

## 3.2 Control Environment

- Ethical values
- Commitment to competence
- Participation by those charged with Governance
- Management Philosophy & Style
- Organisational structure
- Assignment of authority
- Human resource policies & practices

Refer to ISA 315 A 69 & 70

## 3.3 Risk Assessments

### 3.3.1 Overview

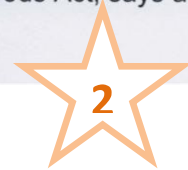
There are two main types of risk: **FRAUD** and **ERROR**

**Four examples of different types of risks of fraud:**



**Criminal: Musica fined for selling counterfeit goods**

Musica has been fined R170 000 after it was found guilty of contravening the Counterfeit Goods Act, says a **Cape Times** report August 2008



YOU'RE PROTECTED AGAINST HACKERS, VIRUSES AND WORMS.  
BUT WHAT ABOUT ROSE IN HUMAN RESOURCES?



Former financial director of the United Cricket Board, Diteko Modise, has been sentenced to an effective 30 years in prison **after being found guilty on eight counts of fraud and one count of money-laundering** totalling R7.4m. He received a collective sentence of 76 years on all counts and can only be considered for parole after serving 20 years.

– Beeld

Example 3 Extracted: [www.news24.com/Beeld/Suid-Afrca/0,,3-975\\_2367951,00.html](http://www.news24.com/Beeld/Suid-Afrca/0,,3-975_2367951,00.html), 2008/08/07



**Siblings in court for school computer fraud**

Two siblings have appeared in the Cape Town Magistrate's Court on fraud charges involving R13-million.

Police spokesperson November Filander said the Hawks arrested Deon Pokpas and Joy Smith earlier this week.

Filander said Pokpas had worked for the provincial Department of Education and then had managed the E-innovation centre for it.

He said Pokpas had allegedly created a false contract for the installation, upgrading and maintenance of computers for schools in the Western Cape. The contract was then awarded to the company of his sister, Joy Smith.

Ntinga Technologies, who Pokpas had allegedly approached to take over the contract, laid a charge when they found out that the contract did not exist and that the money was paid to other people on Pokpas's instruction.

Both accused are out on bail and will appear in court on March 12. - Staff Writer

- This article was originally published on page 6 of *The Cape Times* on December 18, 2009

**CAPE TIMES**

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Example of risk of Error

**Exercise in class**

If you buy a bottle of Olive oil from Woolworths marked special R59.99 and at the till you are charged R 99.99 do you think this is fraud? How do you think this error occurs?



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Fraud or Error?

**Exercise in class**

1. If your registration curriculum form is captured incorrectly will your lecturer think it is fraud or error or could it be both?
2. If your final mark is captured incorrectly will your course convenor think it is fraud or error or could it both?



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**3.3.2 Fraud and Error summary**

- Intentional
  - ▷ Fraud
    - concealment of theft
    - distortion of results
- Unintentional
  - ▷ Error
    - Human vs Computer error/mistake?

**Exercise in class**

Who can commit fraud and error?



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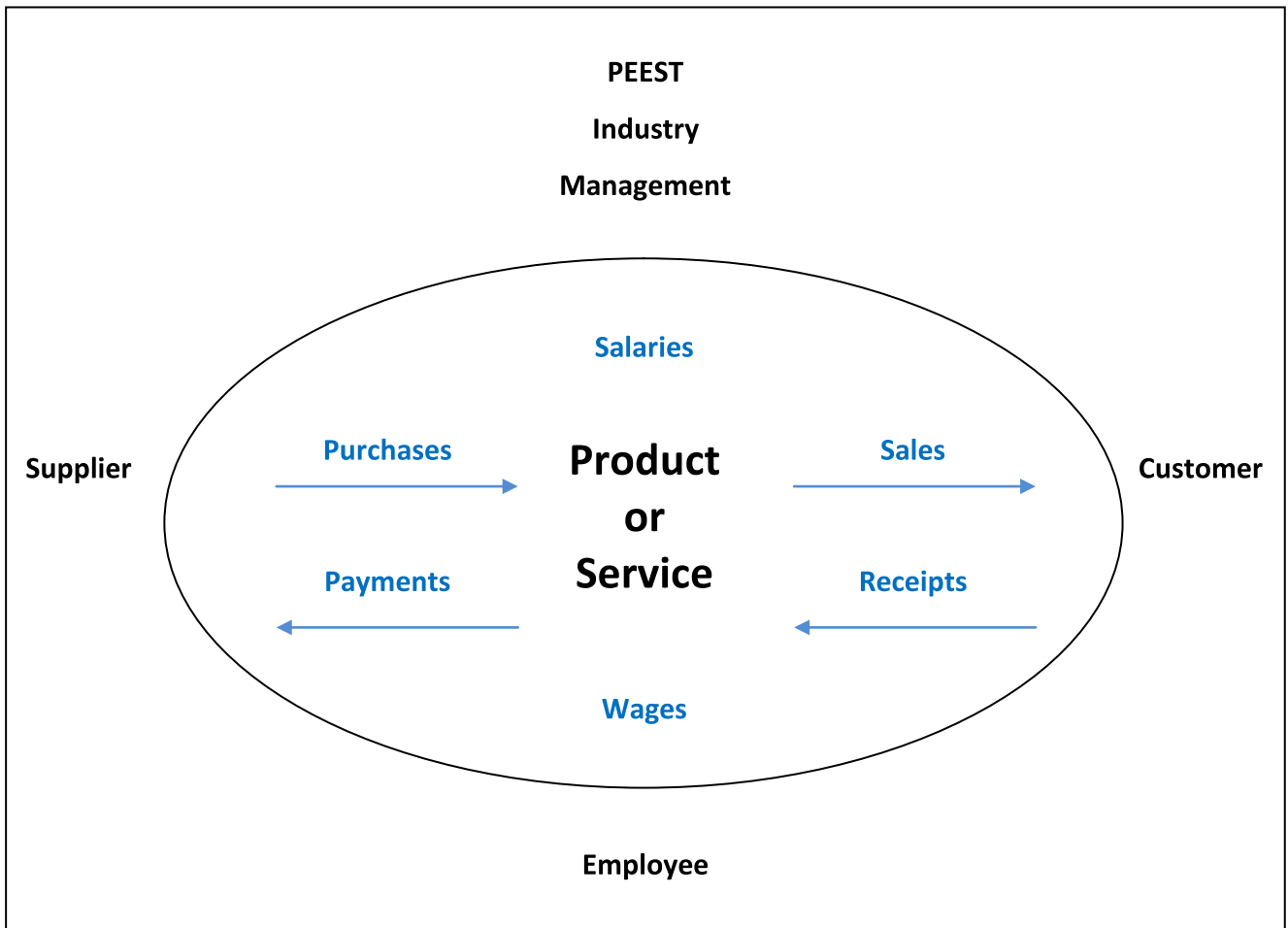
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**3.3.3 Likelihood of risk**

**BUSINESS ENVIRONMENT**



## Computerised environment

The following characteristics of computerised systems will result in different risks and benefits that affect all the internal control objectives. Always consider which are appropriate to the scenario/question you are confronted with. Some scenarios will require you to discuss these characteristics as they relate to the integrity of information. Others will require you to include the business requirements.

- Consistency of performance
- Systems generated transactions
- Concentration of
  - ▷ functions/knowledge
  - ▷ programs/data
- Ease of access
- Absence of hardcopy
  - ▷ Input
  - ▷ Output
  - ▷ Visible audit trail
- Single transaction/ multiple update
- Vulnerability of media
- Dependency on 3rd parties
  - ▷ transmission of data between company and third party

### ***Exercise to be done in your own time***

Relate the above characteristics to purchasing something directly online e.g. airtime top up for your cell phone, movie tickets, an airline ticket.



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### 3.3.4 Risks and benefits of computerised systems

#### Risks

##### Integrity

- Unwarranted reliance
  - ▷ Inaccurate data input, processes eg. Calculating VAT  $14/100 * \text{selling price}$
- authorised access
  - ▷ Authorised internal personnel
  - ▷ Unauthorised internal personnel
  - ▷ Supply chain members
  - ▷ IT personnel
  - ▷ Outsiders/hackers
  - ▷ Management
- Unauthorised changes
  - ▷ Data
  - ▷ Master files
  - ▷ Standing data eg. Prices
  - ▷ Programs eg. Rounding in bank
- Making inappropriate / not making necessary changes to
  - ▷ Data
  - ▷ Applications
- Inappropriate manual follow through (Woolworths price example)
- Ability to process unusual / non-routine transactions
  - ▷ First export/import transaction eg. No VAT
- Inappropriate processing where judgement required

##### Availability

- Inability to access/destruction of
  - ▷ Data
  - ▷ Applications
  - ▷ Technology
  - ▷ Facilities

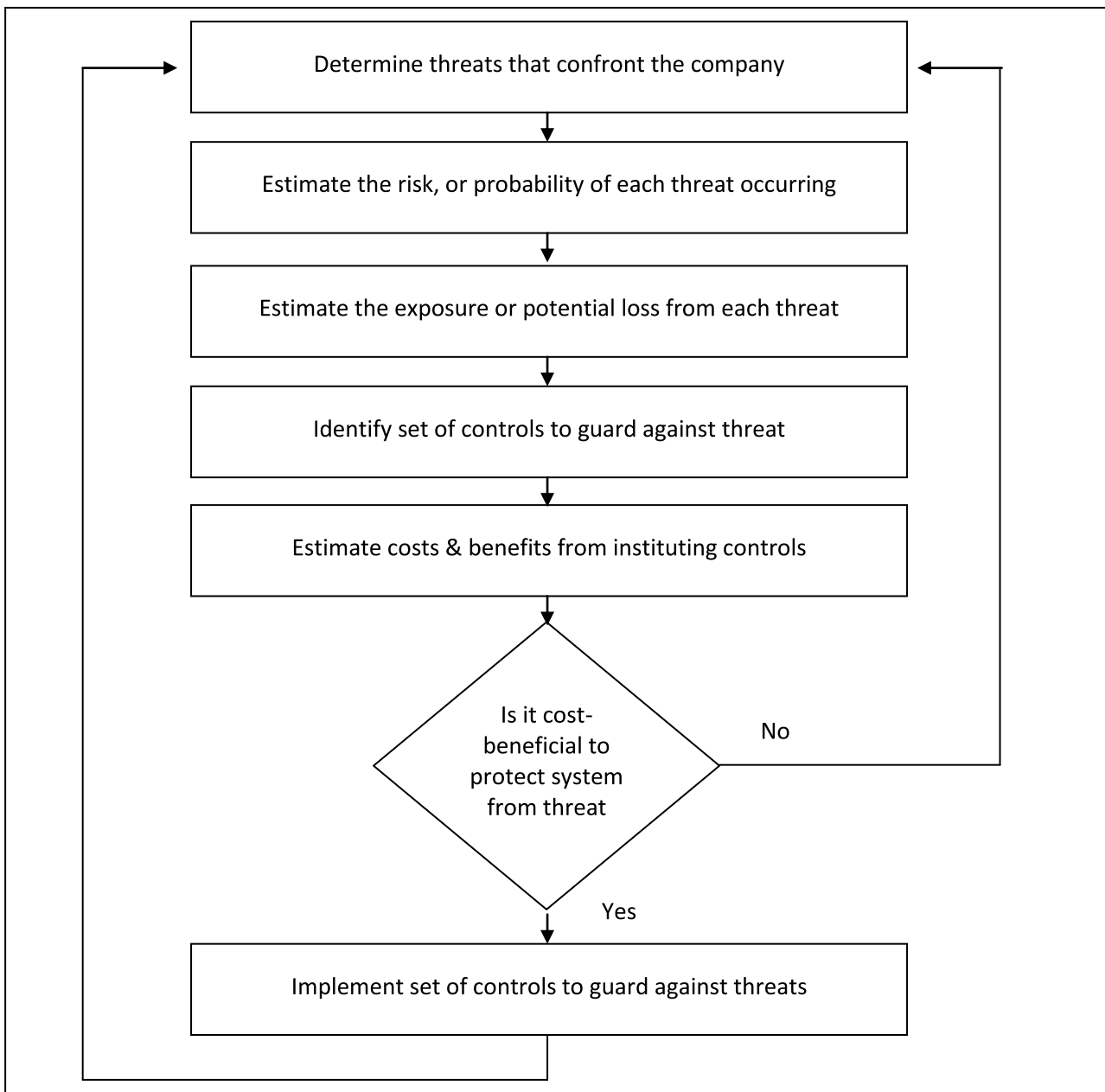
#### Benefits

- Consistently apply pre-defined business rules
  - ▷ Credit limit
- Perform complex calculations
  - ▷ utilising internal and external data eg. Forex rates, interest on daily balances
- Process large volumes of recurring transactions
  - ▷ eg. Edgars sales invoices

- More timely
  - ▷ "Real time" no delays due to people being unavailable
- More readily available information
  - ▷ Ease of locating and printing due to concentration of info
- Enhances analysis of related information
  - ▷ only limited by what is collected and technical compatibility
    - ⇒ Data mining
    - ⇒ Data warehousing
- Enhance control if well constructed eg. Excellent security
  - ▷ Effective segregation of duties (SOD)
  - ▷ Effectiveness of passwords

One needs to consider all components of the system: data, applications (programs), technology (system software, hardware), facilities (outsourcers), people.

### 3.3.5 Addressing Risk

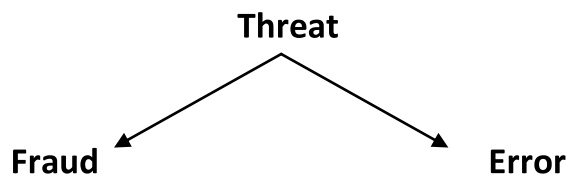


**Limitations of internal control**

- ⇒ Cost/Benefit
- ⇒ Routine vs non-routine
- ⇒ Collusion
- ⇒ Management over-ride
- ⇒ Human error/judgment
- ⇒ Change in conditions
  - ▷ ISA 315 para A46-A50

**Exercise to be done in class**

Identify risks relating to the following areas that management would need to be concerned about.



**Purchases**

**Validity**


**Accuracy**


**Sales**

**Completeness**


**Exercise to be done in class**

What would you do to address the risks identified in the previous exercise ?



<b>Purchases</b>	Applicable to more than 1 area
Validity	
Accuracy	
<b>Sales</b>	
Completeness	

# 3.4 Control Activities

## 3.4.1 Principles

Reference: Appendix B, ISA315 Appendix 1, paragraph 9-10

### ***Exercise to be done in class***

1. Identify the control activity principles outlined in ISA315.
2. Categorise the control activity principles into:
  - a General
  - b Specific



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#### **General**

Applicable to the overall design of a system and therefore can be considered in an answer to any control related question, often referred to as general controls.

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#### **Specific**

Applicable to the individual objectives within each business activity.

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# S

## Segregation of duties

ISOLATION OF RESPONSIBILITY

- INITIATION
- EXECUTION
- RECORDING
- CUSTODY

# P(C)

## Physical Custody

- PHYSICAL SECURITY
- RESTRICT ACCESS
  - INTERNAL
  - EXTERNAL

# A

## Authorisation

- ACKNOWLEDGE PHYSICAL TRANSFER
  - IDENTIFY ACCOUNTABILITY
- IN TERMS OF POLICIES

# R

## Information Processing

- **RECONCILIATION**
- UNDERLYING ASSETS
  - CASH
  - STOCK
- USE OF CONTROL ACCOUNTS/ SUB LEDGERS
- RAND VALUE
- # RECORDS
- #TRANSACTIONS
- NON-FINANCIAL
- INPUT – OUTPUT
- RUN-TO-RUN
- MASTER FILE UPDATES

# P/(M)

## Management

- POLICIES
- SUPERVISE
- REVIEW
  - LOGS
  - EXCEPTIONS OVERALL
  - PERFORMANCE
  - FILE CONTENTS
  - CUSTOMER COMPLAINTS
  - AUDIT TRAIL
  - RECONCILIATIONS
- IDENTIFY, CORRECT, & RESUBMIT ERRORS

# U

## UNUSED STATIONERY

- NEGOTIABLE
- REGISTER → CANCELLED SAFEGUARDED
- MINIMISE INFO
  - CARBO
  - PRE-NUMBER
  - IDENTIFIABLE/NOT EASILY COPIED

# C

## CHECKING

- HUMAN
- COMPUTER

# N

## SEQUENCING

## Exercise in class

In groups apply to principles on page 46 to the stock system of Populaire's Furnishings. Provide controls that can be given to the Internal Audit Department.



### 3.4.3 Application controls

#### Examples relating to control activities

##### South Africa

###### General: Millions more looted at Land Bank

Internal controls at the Land Bank became so lax late last year that its treasury's dealing room was looted weeks after a malfunctioning security door was reported but not repaired, it emerges from internal Land Bank correspondence the *Financial Mail* says it has seen. In October 2007, 28 bills and promissory notes for R1m each were stolen from a locked safe in the dealing room, together with personal items from locked cupboards, an internal memo shows. The *FM* says it understands that 27 of the bills are still in circulation and could be used to defraud farmers. National treasury initially told the *FM* its asset and liability management division had not been formally notified, as required by the Public Finance Management Act, but later confirmed it had been made aware of the theft. Treasury also pointed out that the thefts took place when the bank fell under Land and Agriculture Minister Lulu Xingwana. Last month jurisdiction was transferred to Finance Minister Trevor Manuel. The theft was discovered in November after a Mpumalanga construction company tried to cash a Land Bank bill for R1m at the FNB Standerton branch. 'All money market instruments were checked immediately and it was found that three Land Bank bills and 25 Land Bank promissory notes were missing from the locked safe,' says a memo from the bank's treasurer, Makgale Gwangwa. Gwangwa confirmed this week he had written a memo informing the bank's internal audit unit of the theft and that he had urged the bank to report the matter to the police. He resigned soon thereafter.

Full *Financial Mail* report (subscription needed)

Legal Brief 0126 14 August 2008

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## 2 Transnet hearing considers Gama penalty

JULIUS BAUMANN  
Transport and Tourism Editor

THE fate of the suspended CEO of Transnet Freight Rail, Siyabonga Gama, is likely to be decided in the next week as the hearing into what sanction he would receive began last night.

This comes as Mr Gama's lawyer, Themba Langa, prepared to dispute in court a disciplinary hearing finding that Mr Gama flouted procurement rules.

Last night Transnet spokesman John Dlodlu said a process was under way and that Transnet had made a representation. He did not give details of

the representation. It is understood that Mr Gama's legal team would make a written representation by this evening.

Last week Public Enterprises Minister Barbara Hogan said in a written reply to a parliamentary question that Transnet would seek Mr Gama's dismissal. Mr Gama — who has been suspended on full pay since September last year — was found guilty earlier this month on three out of four counts of misconduct by a disciplinary hearing chaired by advocate Mark Antrobus SC.

Mr Langa said yesterday that Mr Gama would proceed with his court action irrespective of the

outcome of this week's hearing. It was not yet decided whether his client would seek reinstatement or compensation if dismissed.

Last week in a letter to Transnet's attorney, Chris Todd, Mr Langa said "Transnet has compromised the integrity and processes of the (disciplinary) hearing which occurred when Transnet appointed Mark Antrobus to preside in another Transnet disciplinary matter while the Gama matter was partly heard.

"To make matters worse, Mr Antrobus was briefed by the same Bowmans prosecution team that prosecuted Mr Gama ... (which) would unequivocally create the

impression that Mr Gama was tried by 'buddies'."

He said Mr Gama was "going to ask the court for extensive relief and costs".

Mr Dlodlu said there was no substance to the latest complaint Mr Gama had raised.

Mr Gama was found to have irregularly awarded an R18m contract to a firm linked to Communications Minister Siphwe Nyanda, although his authority was limited to contracts of less than R10m. He was also found to have failed in complying with conditions for an R800m contract for refurbishing locomotives.

baumannj@bdfm.co.za

**Exercise in class**

Can you think of where unused stationery is relevant in the marks processing cycle?



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**Exercise in class**

Identify two types of logs on your cell phone



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**Exercise to be done in your own time**

Go to a supermarket eg. Pick 'n Pay, Spar, Shoprite, Checkers. Identify at least seven controls that management should/ have implemented to prevent and/ or detect stock theft.



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**Exercise in class**

Based on the manufacturing video you watched, identify at least 4 stages where the raw materials could be lost or stolen.

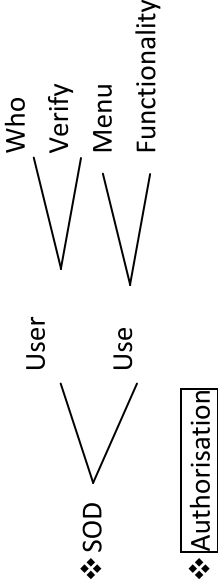


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<p style="text-align: center;"><b>VALID</b></p>	 <ul style="list-style-type: none"> <li>❖ SOD</li> <li>❖ <span style="border: 1px solid black; padding: 2px;">Authorisation</span></li> <li>❖ Control Over-rides (a la Pick 'n Pay)</li> <li>❖ Identify duplicates</li> </ul>
<p style="text-align: center;"><b>ACCURATE</b></p>	<ul style="list-style-type: none"> <li>● Reduce likelihood of error             <ul style="list-style-type: none"> <li>– Train (remember control environment people in specific duties are competent)</li> <li>– Help function / manual</li> <li>– User friendly screen / documents</li> <li>– Prompts / Drop down lists / minimise options</li> </ul> </li> <li>● Minimise input             <ul style="list-style-type: none"> <li>– Automate / use of standing data</li> <li>– Preformatted keys</li> <li>– Touch screens</li> <li>– Scanners</li> </ul> </li> <li>● <span style="border: 1px solid black; padding: 2px;">Check input</span> <ul style="list-style-type: none"> <li>– Manual one-to-one check</li> <li>– Computer edit and validation checks</li> </ul> </li> </ul>
<p style="text-align: center;"><b>COMPLETE</b></p>	<ul style="list-style-type: none"> <li>▪ Automatically numbered</li> <li>▪ <span style="border: 1px solid black; padding: 2px;">Numeric sequence check</span></li> <li>▪ Field presence check</li> <li>▪ Identify errors, correct and resubmit</li> </ul>

**Example: Edit and validation checks**

- 8.1 *Alpha-numeric checks* prevent/detect numeric fields which have been entered as alphabets and vice versa.
- 8.2 *Range checks* detect when a field falls outside the allowable minimum and maximum set.
- 8.3 *Limit checks* detect when a field exceeds a single limit set (i.e. minimum or maximum).
- 8.4 *Check digit* a redundant character attached to the end of a number which detects all types of data coding errors i.e. addition, truncation and transcription errors. (See note (c) on previous page).
- 8.5 *Size checks* detect when the field does not conform to pre-set size limits.
- 8.6 *Missing data checks* detect blanks where none should exist.
- 8.7 *Reasonableness checks*: best explained by using the example of 40 hours worked which may pass the limit check described in (8.3) above, but fail a reasonableness test when related to the classification on the employee status field e.g. part-time mornings only employee, therefore expected to work no more than 20 hours.
- 8.8 *Sequence checks* detect gaps or duplications in a sequence of numbers.
- 8.9 *Verification checks* validate data keyed in against the masterfile e.g. customer account number.
- 8.10 *Data approval checks* test input against a preset condition e.g. sale may not exceed credit limit.
- 8.11 *Internal label check* checks that the file-name loaded is the correct one for the intended operation.
- 8.12 *Generation number check* checks that the correct generation of the file has been loaded.
- 8.13 *Retention date checks* checks whether the retention date on the file has expired.
- 8.14 *Arithmetic accuracy check* e.g. reverse multiplication, (multiplication is repeated but in reverse and answers matched  $3 \times 6 = 18$ ;  $18 \div 6 = 3$ ).
- 8.15 *Reasonableness test* after processing of a transaction has taken place the result is compared to other information for reasonableness e.g. a wage of R5000 is not reasonable for a grade 3 employee.
- 8.16 *Limit test* identifies amounts which fall outside a predetermined limit after processing.
- 8.17 *Gross casts*, where amounts are allocated to columns and the columns are independently cast (added up) the totals of the columns can be cross cast (added across) and compared to the total amount allocated e.g. net pay + paye + medical aid deduction = gross pay.
- 8.18 *Run-to-run totals*, a final balance arrived at after processing is compared to the opening balance and individual totals of transactions e.g. the closing balance on debtors (31 May) is compared to the opening balance on debtors (30 April) plus the total of May sales (debits) less the total of May receipts (credits).
- 8.19 *Reconciliation of related-subsystem balances* e.g. debtors ledger and debtors control account.

Source: Jackson & Stent 8/36

**Example: Check digit**

A laser scans the bar code, and the reflections are read as numbers.

The UCC gives out the first digits to identify the maker of the item. Everything that company makes will begin with the same numbers. Look at different flavors of canned soup the next time you shop to confirm that.

The 5-digit number is given to the product by the company that makes it. That gives the company 99,999 things it can make.

This is a check digit, it's the answer to a math problem designed to be sure that the scanner read the bar code properly.

0 12345 67890 5

Center Code Start Code Start Code

it sounds like an Inuit, but these are called "human readable numbers."

**GRAB ANY BAR CODE**

You Can always guess the last number of a UPC code. Use the "human readable numbers" from any 12-digit UPC code: Add the sum of the odd-spaced digits (the 1st, 3rd, 5th, 7th, 9th). Multiply the sum by 3. Save that as answer #1. Add up the even-spaced digits of the code (don't include the check digit! That's the one you're guessing). Add that answer to answer #1.

The check digit will be whatever number you have to add to your last answer to get it up to the next multiple of 10.

Source: Weekend Argus Jellybean Journal

Example: Programmed validation and edit checks

	Input Data	Reasons for Failing Validity Check	Stored Data
<b>REASONABLENESS CHECK</b>	Date received: <u>021183</u> (MMDDYY) Hours worked: <u>72</u> Stock cost \$/unit: <u>010.25</u>	Must be received today or before. Hours exceed normal maximum. New inventory cost exceeds previous price by more than 10%.	System date: <u>021282</u> Maximum hours: <u>55</u> Previous cost \$/unit: <u>001.25</u>
<b>DEPENDENCY CHECK</b>	Date received: <u>81067</u> (YYDDD) Expiration date: <u>83159</u> (YYDDD)	Expiration date exceeds date received by more than the shelf life of 4 months.	Shelf life: <u>00120</u> (YYDDD)
<b>EXISTENCE CHECK</b>	Department numbers: 169 224 598 624		Valid department numbers: 169 214 598 624
(Matching)		Department 224 is invalid.	
Note: 1. Stored data must be correct. 2. Program must be logically correct and must report all failures.			

	Reference number: Dollar value: Name:	Input Data	Reasons for Failing Edit Check
<b>FORMAT CHECK</b>		122 476 <u>00013A4</u>	Embedded blank. Nonnumeric. Must enter (cannot be blank).
<b>MATHEMATICAL ACCURACY CHECK</b>	Invoice:	\$ Value Goods 2000.00 Tax 10.00 Total <u>2100.00</u>	Does not foot.
<b>RANGE CHECK</b>	Date:	<u>131381</u>	Month 13 is illegal (out of range).
<b>CHECK DIGIT VERIFICATION</b>	Employee numbers:	<u>046176</u>	Modulus 11 check digit $6 \times 1 = 6$ $7 \times 2 = 14$ $1 \times 3 = 3$ $6 \times 4 = 24$ $4 \times 5 = 20$ $0 \times 6 = 0$ Total is 67, not divisible by 11. Should be <u>046167</u> .
<b>DOCUMENT RECONCILIATION</b>	Document number: Code: Value: Hash total:	1394 17 1732.59 <u>2144.59</u>	Hash total does not foot.
Note: Program must be logically correct and must report all failures.			

Source unknown

Example: Constituents of an audit trail

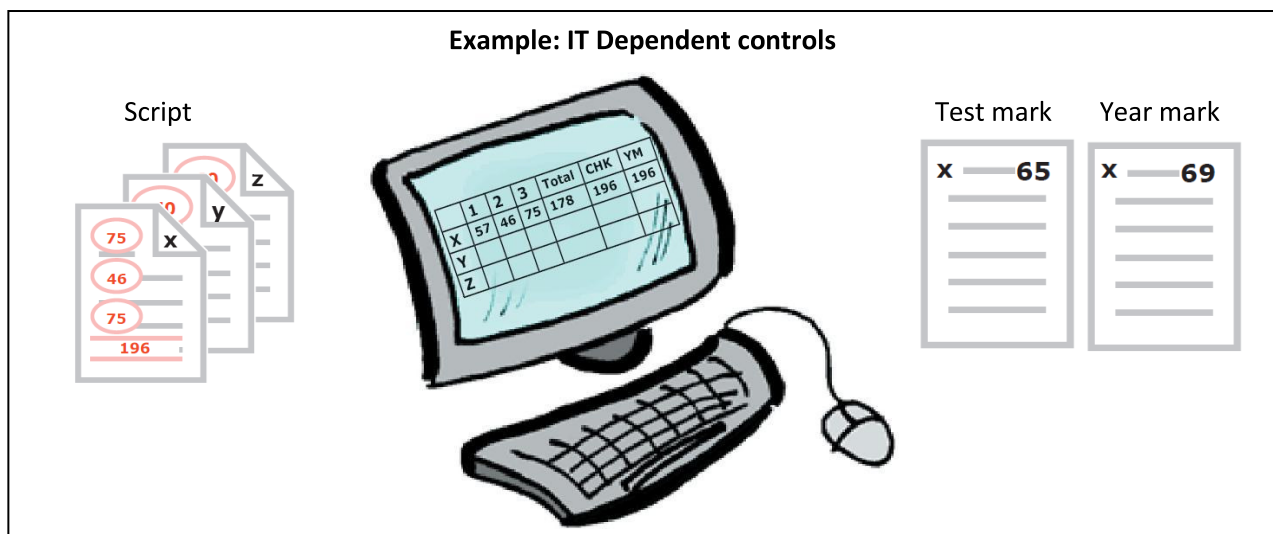
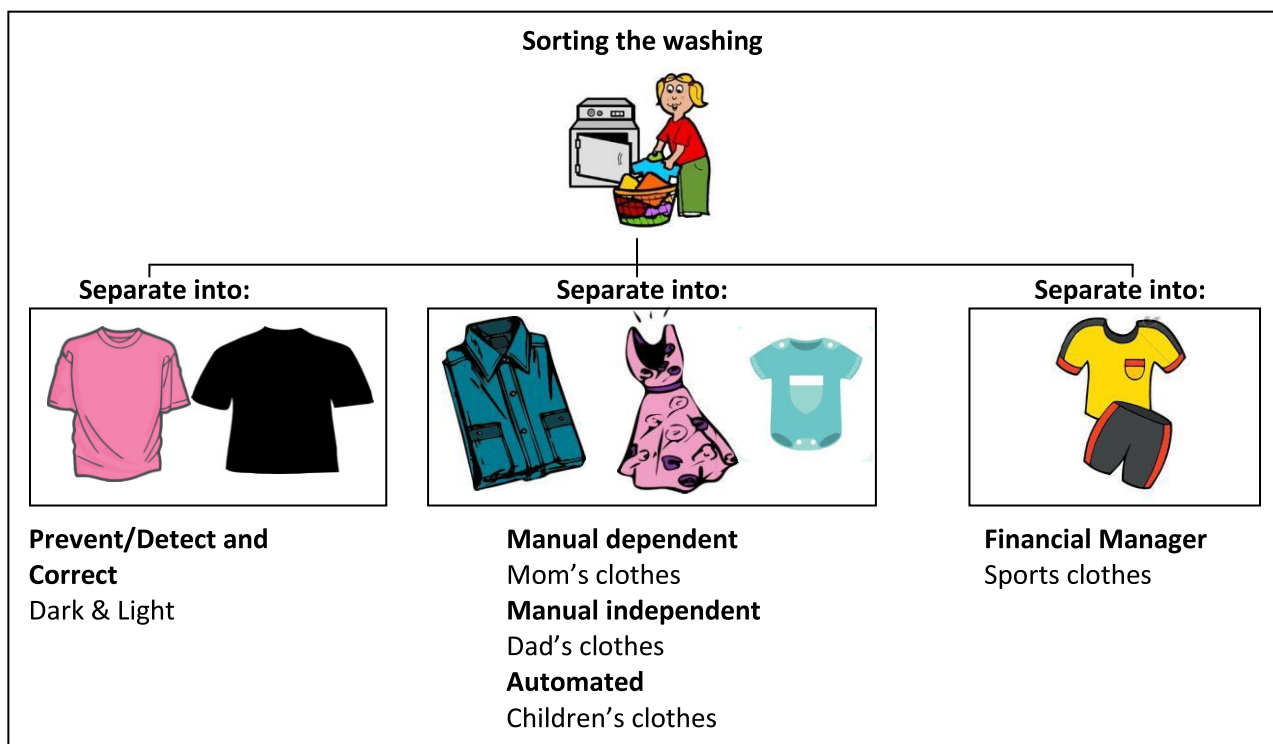
<i>Transaction Cycle</i>	<i>Audit Trail</i>
Input —Data capture —Batch data preparation —Batch input —On-line entry	Source documents Source (transaction) lists Transaction identifiers Validated transaction files on tape or disk Batch transmittal logs Batch transmittal tickets Manual error log Error suspense file on tape or disk Error listing
Processing —Data validation —Calculation —Comparison —Summarization —File updating —File maintenance —Sequencing —Inquiry —Error correction	Application program documentation Table contents Factor values Operator input data Default options Transaction listings Listing of computer-generated transactions File activity data Error suspense files Error log
Output —File content —Reports —Documents	Field data by record File balances Accounting reports Management reports Reference reports Error logs Error report Output documents

Source unknown

### 3.4.3 Categorisation of control activities

#### Different ways of categorising (sorting) internal control activities

- Management Philosophy
  - ▷ Prevent and/or Detect & Correct
- IT dependence
  - ▷ Manual dependent: User Controls on computer output (eg. review of log)
  - ▷ Manual independent: Reconciling input to output (eg. paper results on the notice board to the original test script.)
  - ▷ Automated: (eg. Including a check in the computer programme to prevent any mark >100% being captured.)
- Level of Control
  - ▷ Management exercised controls and/or
  - ▷ operational staff controls.



**Exercise in class**

What could an individual manager do to address the risks identified to minimise stock loss/ theft, in the exercise on pg 48 relating to the video you watched?



**Set Policies**

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**Set Authorisation limits**

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**Approve exceptions / outside limits**

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**Review reconciliations**

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**Extract and review exception reports**

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**Review overall results and correlation**

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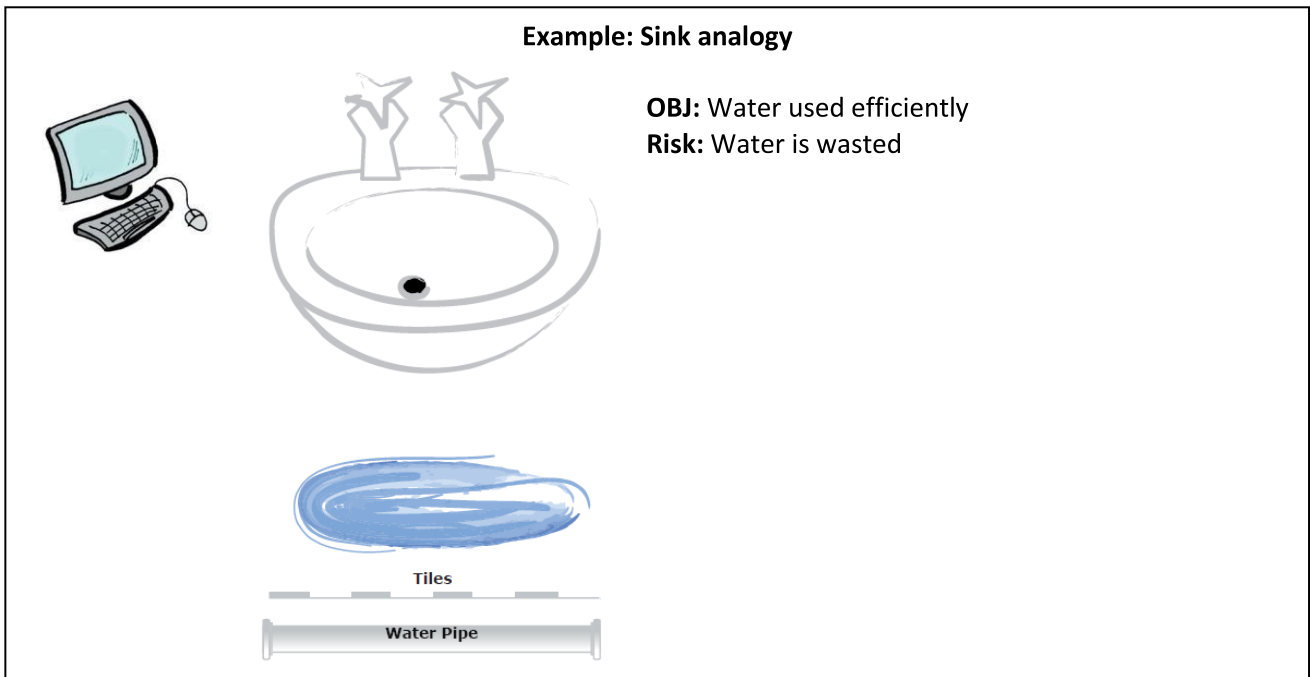
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**Supervision and spot checks**

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**Exercise**

Class example using a previous exam question

**PART A (13 marks)**

During study week you and your colleagues are having a discussion on the impact of computerisation on the internal control activities.

**You are required to:**

Using the following list of control activities, discuss the impact of computerisation.

- Segregation of duties
- Custody of assets
- Information processing controls
- Authorisation
- Performance review and management supervision

**PART B (17 marks)**

Due to the proximity of the University and a number of secondary schools the local garage “mini-supermarket” has decided to introduce sales on credit where a parent/guardian/bursar has agreed to stand surety. In addition the manger has put up large signs saying that payment by cheque is now acceptable after the recently introduced regulations over cheque Amendments.

**You are required to:**

Identify all controls that should be in place to prevent errors and irregularities in the integrity of the sales application.

Your answer should use the following headings:

- All sales transactions are recorded
- All sales transaction are recorded accurately
- All sales transactions are valid

You may assume that adequate controls exist over the central computer processing activities.







**Masterfile update**

**Customer/ Accounts Receivable masterfile update**

INDIVIDUAL CUSTOMER  
Xolani Sibiya

key for customer service	CODE
key for business profitability	Early terms
	Price list version
	Credit limit

Accounts Receivable Master file

50 records	R xxx <sup>1</sup>
------------	--------------------

Daily/Monthly Customer Movement

NEW CUSTOMER	_____
DELETED CUSTOMER	_____
CHANGED CUSTOMER	_____

Update A/R Master file

40 records	R xxx <sup>1</sup>
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Master file update report

O/B	50	Rxxxx <sup>1</sup>
10 New	10	_____
20 Del	(20)	_____
50 Change details	_____	_____
C/B	40	xxxx <sup>1</sup>

Reconcile

Process Transactions

Sales	100	xxx <sup>2</sup>
Returns	12	xxx <sup>3</sup>
Receipts	15	xxx <sup>4</sup>
Adj	+	-
	9	800
	3	300
	12	500

Master file updated by transactions

#	1	2	3
O/B	40	xxxx <sup>1</sup>	

Check to

- 1
- 2
- 3
- 4
- 5



### 3.4.4 General IT controls

#### Overview

Environment controls applicable to IT

- a) Organisational: segregation, staffing and organisation policies
- b) Continuity: backups and disaster recovery

General IT controls

- c) Change:
  - (a) systems acquisition development
  - (b) maintenance and program changes
- d) Access:
  - (a) physical access
  - (b) logical access to programs & data
- e) Operations
  - (a) Recording: hardware & software controls to detect errors & malfunctions
  - (b) Management supervision over computer operations
  - (c) Communications



**Also refer:** Jackson & Stent pages 88-10/23.

Managing your password article on the following link:

<http://www.icts.uct.ac.za/modules.php?name=News&file=article&sid=3100>

#### ***Exercise i.r.o IT usage policies to be done in your own time***

Go to the UCT web site and look under policies. Find those relevant to your use of computer resources at UCT.

1. Does UCT have the right to look at your records?
2. What is UCT's policy about the private use of computer resources?
3. Can you share your login?



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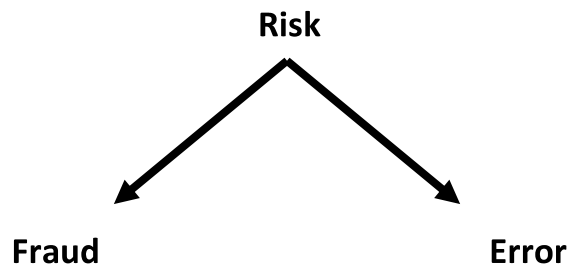
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**a. Organisational**

Formal IT strategy

Part of Internal Audit view



Hiring and firing	Integrity via background checks	Set level
Regular vacations	Pick up trends	Refreshed
Rotation of duties	Enable analysis	Multi-skilling
Policies	Viruses Email Software piracy Use of hardware	Disclaimer
SOD	Separate user & IT Separate within IT	
Remuneration	No incentive to take risks	Fairness

**Example: Importance of hiring procedures**



**REMEMBER:** What is SOD?

**Exercise i.r.o Organisational structure in class**

Apply the principles of SOD to the IT and User departments

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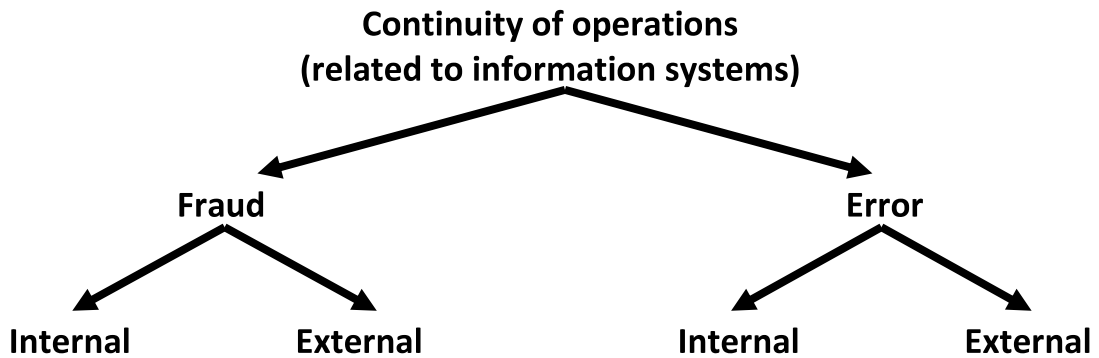


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**b. Continuity of operations**



Need a Strategy for Disaster Management

- Documented
- Tested
- Communicated

Prevent

- Regular maintenance
- Physical situation
- Environment
- Back-up – regularly & test

Detect

- Warning signs / fire alarms
- Adhere to electrical requirements

Correct

- Insurance
  - ▷ Physical reconstruction
  - ▷ Loss of profits
  - ▷ Regular review that premiums are paid
- Off-site storage

***Exercise in class***

Identify the components of an information system that would need to be considered in respect of the above.



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**CONNECT WITH SUCCESS**  
 business@uk.easynet.net  
 www.uk.easynet.net

# easynet  
 045 281977

# FINANCIAL

Weekend September 15/Se

## ASSAULT ON AMERICA THE AFTERMATH

### Life-saving lessons of 1993 bomb

Morgan Stanley's staff were ready

By Gary Silverman and Peter Thal Larsen in New York

When the first airliner struck the World Trade Center on Tuesday, employees of the biggest tenant in the complex knew exactly what to do. Today, all but a few of Morgan Stanley's 3,700 employees are alive to talk about it.

In 1993 when terrorists bombed the World Trade Center, Dean Witter, a brokerage that is now part of Morgan Stanley, had been affected. Its employees have been in training ever since.

The workers - mostly involved in processing trades for retail investors or handling administrative matters - were organised to evacuate floor by floor. Drills were conducted. A back-up facility was maintained in lower Manhattan.

"If you went through 1993, it was very, very scary," said Philip Purcell, Morgan Stanley's chairman and chief executive officer. "The lessons were very, very clear."

After the first aircraft crashed into the North Tower, Morgan Stanley's employees in the other tower headed out - and never turned back. When the second airliner struck just above Morgan Stanley's 12 floors in the South Tower, evacuation was under way.

As a result of their preparation - and no small amount of luck - most of Morgan Stan-

ley's workers made it to safety. But by the time they reached the streets below, the lessons of 1993 no longer applied.

Some workers had been so traumatised they went home, turned off their telephones and avoided contact. Days went by, and no one at headquarters heard from them.

"Everybody is in shock," Mr Purcell said. "The people who got out are hurt. They watched people jump out of the buildings."

Morgan Stanley put its communications network to internal use. A call centre in Phoenix, Arizona, was charged with reaching workers from the World Trade Center.

At the same time, a call number was broadcast on US television networks, and Morgan Stanley officials knocked on the doors of employees to see if they were at home.

The initial results were not good. "We didn't talk to as many people as you would hope," Mr Purcell said.

By Wednesday night, more than a day and a half after the attack, Morgan Stanley officials had been unable to reach 500 workers. That number was 300 by Thursday morning.

It was not until Thursday evening that Morgan Stanley was able to say it had accounted for all but 15 employees.

Mr Purcell, his eyes welling with tears, said the missing



People flee as the World Trade Center's South Tower collapses AP

workers included several "heroes" who had stayed inside to help colleagues down as many as 74 floors to safety.

Morgan Stanley's plans to use its back-up facility were foiled at first. No one had imagined lower Manhattan would be sealed off, leaving the facility inaccessible.

The investment bank had other options. Its institutional services business had a processing centre in Brooklyn. Its mutual fund processing was done in Jersey City.

By yesterday morning, however, Morgan Stanley had been able to move 400 people into

lower Manhattan as it prepared for an industry-wide test of systems today.

Assuming all goes well, Morgan Stanley, like other securities firms, will begin trading stocks again on Monday.

But when it reopens, Morgan Stanley will be a different firm. Wall Street will be a different place.

The Wall Street of old was a home for confident people who had known little other than success - a mentality that had been reinforced by the longest bull market ever.

Wall Street knows tragedy now, first hand.

#### COMPANIES IN THIS ISSUE

AIG 5 | Buhmann 12 | Hynix 12

#### MARKETS LATEST

FTSE 100 4,755.7  
 Dividend Yield 2.66

STERLING  
 New York 148.12

# THE DAYS THE

# EARTH STOOD STILL

WITH A HUFF AND A PUFF, MOTHER  
NATURE GROUNDED THE GLOBAL  
ECONOMY—AND POINTED UP  
THE NEED TO FIX OUR  
FRAGILE SYS

BY DANIEL GROSS

AS THE ASH CLOUD EMANATING FROM AN ICELANDIC VOLCANO WREAKED havoc on global travel, Cisco Systems completed its \$3.3 billion acquisition of Tandberg, a Norwegian teleconferencing company. Marthin De Beer, Cisco's senior vice president of emerging technologies, found that his flight from San Jose, Calif., to Oslo, where he was to discuss the deal, had been canceled. So he and Tandberg's CEO, Fredrik Halvorsen, held a virtual press conference using the merged firms' equipment. Since the volcano erupted on April 14, Cisco's TelePresence service (think a very high-end Skype) has boomed. Thanks to cheap and pervasive information technology, TelePresence and similar products from competitors have emerged as a sort of redundant network for business meetings. When face-to-face meetings are impossible, executives can go to a specially equipped conference room, flip a switch, and share bad jokes and PowerPoint presentations.

For business, investing in that kind of redundancy is a form of insurance. And for those in the business of trading information, this insurance comes relatively

THE SAME TECHNOLOGY-ABETTED FORCES THAT SPUR  
GLOBALIZATION AND EFFICIENCY HAVE LEFT THE WORLD  
ECONOMY PARTICULARLY SUSCEPTIBLE TO DISRUPTIONS.

cheap. They won't divulge the locations, but most major Wall Street firms have backup trading floors in the Northeast—desks, chairs, and computer equipment that lie fallow. If a man-made or natural crisis shuts down their Manhattan headquarters, workers can show up and start trading derivatives. Google says, "Every action you take in Gmail is simultaneously replicated in two data centers at once." If one fails, the user won't experience a disruption. A company spokesman says Google has put a lot of thought into the "geographic diversification" of data-center site selections, so that if one area of the globe is affected by a disaster, traffic can be routed to another. And with the rise of cloud computing, everyone can have a backup network.

But as the global economy learned last week, it's much harder—and in some instances nearly impossible—to build redundancy into the vital networks that now move people, goods, and services around the world. The same technology-abetted forces that spur globalization and efficiency have left the world economy particularly susceptible to disruptions.

The International Air Travel Association reported that airlines lost \$1.7 billion due to the shutdowns in Europe. But disrupted business travel and tourism (this writer's family vacation to Paris was buried in volcanic ash) are only the tip of the iceberg.

A hundred years ago, even 30 years ago, an eruption from Iceland wouldn't have affected menus in Florence or the ability of autoworkers in Tennessee to assemble cars. But things have changed. The just-in-time mentality dictates that factories and retailers build super-efficient, lengthy supply chains and keep as little capital and warehouse space as possible tied up in inventory. Globaliza-



PARIS-CHARLES  
DE GAULLE AIRPORT  
ON APRIL 16.

tion has meant that companies source components and products from all over the world. The upshot: when there's a small disruption anywhere, the machinery of global capitalism slows down. And when there's a disruption in Europe, look out. The slow-growing region is actually a highly globalized economic powerhouse. "Europe is the biggest exporter in the world and the second-biggest importer," Eric Chaney, chief economist at AXA Group, told *The Wall Street Journal*. And while container ships are the workhorses of global trade, plenty of really valuable stuff crosses the Atlantic in airliner cargo bays. By Tuesday, with flights from Europe having been canceled for a few days, the automaker Nissan suspended some production at factories in Japan. They were lacking pneumatic sensors made in Ireland.

Natural phenomena have laid bare the fact that the networks that power

our economy are both fragile and really expensive to duplicate. Consider electricity. A recent windstorm in the Northeastern U.S. knocked out electricity to homes and offices for several days. But installing a home generator that can pick up the electric load would cost several thousand dollars. Manufacturers can't afford to keep fully equipped factories on standby, with workers on call, on the off chance an epidemic in China halts exports.

When it comes to transport networks, it's very difficult to build an adequate level of redundancy. Europe's extensive system of trains and ferries wasn't nearly extensive enough to handle the flood of traffic that materialized when aircraft were grounded. If the Panama Canal were temporarily shut down, goods could be shipped around South America or humped overland across the isthmus—but only at great cost and delay. In theory, flights from the U.S. to India via London could have been rerouted through airports in Africa. But Dakar's airport can't possibly afford to maintain extra runways and keep air controllers and ground crews on call so they can be called into action the next time Heathrow shuts down. Airplanes, ships, ports, and landing slots at airports are too valuable and expensive not to be used.

There's hope, though. In an effort to capitalize on global capitalism's lack of redundancy, Dubai opened a big hub called Logistics City last year, providing a potential alternative. And some environmental disruptions may work in favor of less fragile supply chains. Thanks to the melting of the North Pole, Russian ships are beginning to forge a new, quicker shipping route from Asia to Europe and North America.

With NICK SUMMERS in New York



Mrs. M T Minter  
XXXXXXXXXXXXXXXXXXXX  
XXXXXXXXXXXX  
7700

Your reference  
Our reference CLN000109985  
Date 22 October 2009

Zurich Insurance Company  
South Africa Limited

15 Marshall Street  
Ferreirasdorp  
2000

PO Box 61489  
Marshalltown  
2107

Telephone: +27 (0)11 370 9111  
www.zurich.co.za

**This letter contains important information regarding the security of your data. Please read this letter and supporting information carefully and contact us so we can support you in any way we can.**

### Loss of Data Tape

Dear Mrs. M T Minter

I am writing to you today to offer you a personal apology.

A back-up data tape containing certain of your personal data held on one of our systems has been lost during a routine transfer to a storage facility in August 2008. Although the incident took place some time ago, the full details relating to this incident have only recently become clear, which is why I am writing to you now.

We have seen no evidence to date to suggest that your personal data has been improperly accessed or compromised since the tape was lost. Nevertheless, we want to do what we can to minimise, and avoid, the possibility of such misuse. I am writing to you so that you are able to take such measures as you consider appropriate to safeguard your position.

Zurich Insurance Company South Africa Limited ("Zurich"), as part of a global financial services group, takes its responsibility towards its customers extremely seriously. Zurich has an unwavering commitment to fair and responsible business conduct and, in keeping with this philosophy, we are informing you of this incident. In dealing with a situation of this nature, we have aligned ourselves to global best practice. We are conducting a thorough investigation which has revealed certain deficiencies in the management of security procedures around our data tapes. To address this, a leading firm of external advisors with particular expertise in data security has been engaged and we will be making significant investments to strengthen our data security processes to ensure that such an incident does not reoccur.

Importantly in this context, please note that Zurich does not hold or store any security codes, pin codes, pass codes or passwords. We can confirm that no such information was contained on the missing data tape.

Directors:  
JPG de Raville (Chairman)  
GRC Munnach (CEO) \*  
P Bezuidenhout \*  
CJ Cron \*  
JPM Dain \*  
MN Mbekeni  
DD Mokgatle  
SG Morris  
DS Phiri  
Dr S Maeder &

& Non Executive  
\*Executive #American #Swiss  
British

Company Secretary: TA Pitman

Registration No. 1905/006766/06  
Authorised FSP No. 17703  
VAT Registration No. 4530103581

0154242411.0001.0001.0001.0001.0001



### Hefty fine for loss of personal data

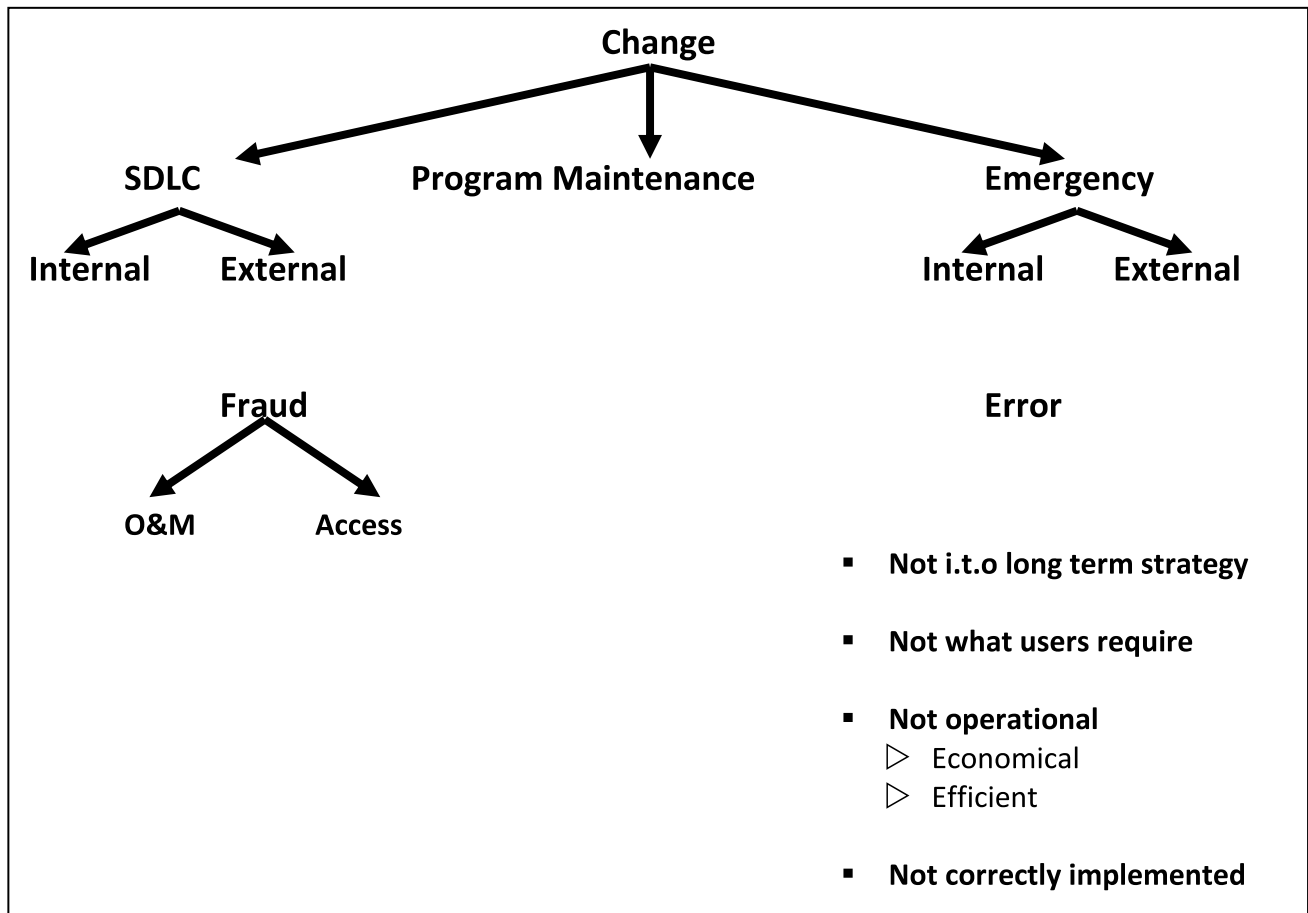
LONDON: Britain's financial regulator has fined Zurich Insurance PLC £2.275 million (R26m) for losing confidential data on 46 000 customers.

The Financial Services Authority said yesterday the security breach in 2008, only discovered a year later, could have exposed customers to significant losses although there was no evidence that the data had been misused.

The lost data included identity information and, in some cases, details of bank accounts, credit cards and insured assets.

- Sapa-AP

c. Change



REMEMBER:  
 What does O & M stand for? \_\_\_\_\_  
 What does SDLC stand for? \_\_\_\_\_

**Programme change control**

*Organisational Issues*

- Ensure appropriate levels and quality of staff are employed for the programmer position.
- Ensure that IS employees are adequately trained.

*Initiation*

- Compliance with programme change standards /frameworks e.g. CoBiT.
- Requests for programme changes should be documented on pre-numbered pre-printed change control forms.
- The programme change requests should be recorded in a register and regularly followed up
- Change control requests should be evaluated and authorised in writing by:
  - The user department
  - IS manager
  - Internal Auditor

### Execution

- Programme changes should be effected by application programmers – not operators. (segregation of duties)
- Changes to be made in test libraries i.e. changes should be made to a test programme and not the production programme (i.e. to a copy of the live programme).
- Changes should be tested by the programmer and an independent (senior) programmer using standard debugging techniques.

### Processing

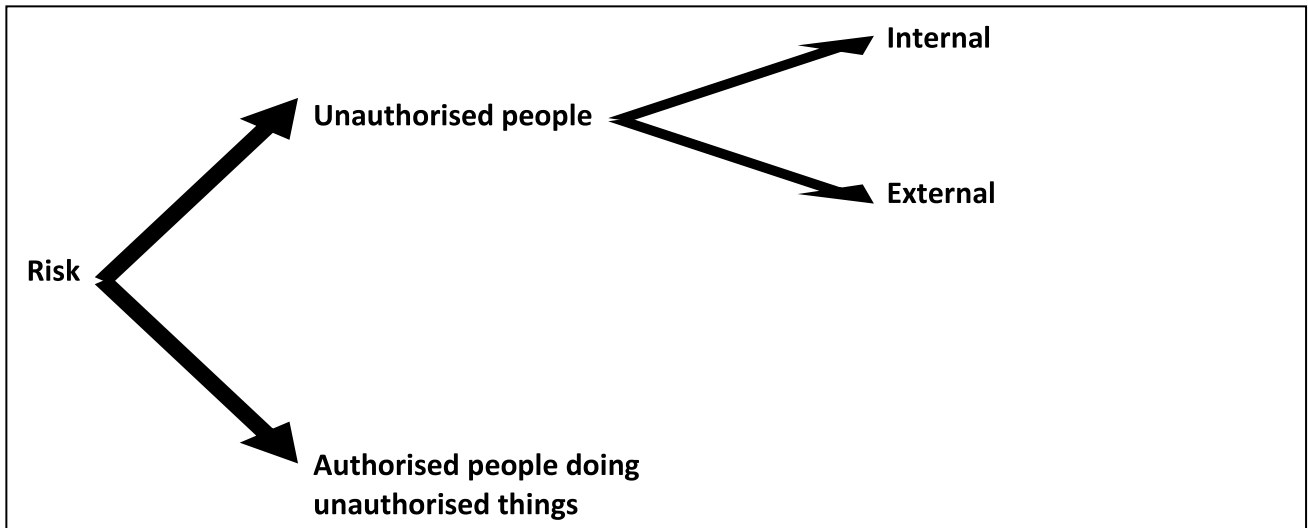
- Programme changes should be discussed with users and Internal Audit and they should sign the change control form if they approve.
- All documentation related to the change should be updated.
- The amended programme should be copied to the live library by an independent senior member of the systems development section.
- All programme changes should automatically be logged by the computer.
- The IS manager should review the log of programme changes and reconcile it to the programme change forms.

### Implementation

- Train users i.r.o changes and perform assessment to ensure that changes are correctly applied update relevant documentation
- Perform post implementation review.

*Adapted from Jackson & Stent 2010 Auditing Notes for South African Students 7<sup>th</sup> Edition p.8/17 Durban*

### d. Access

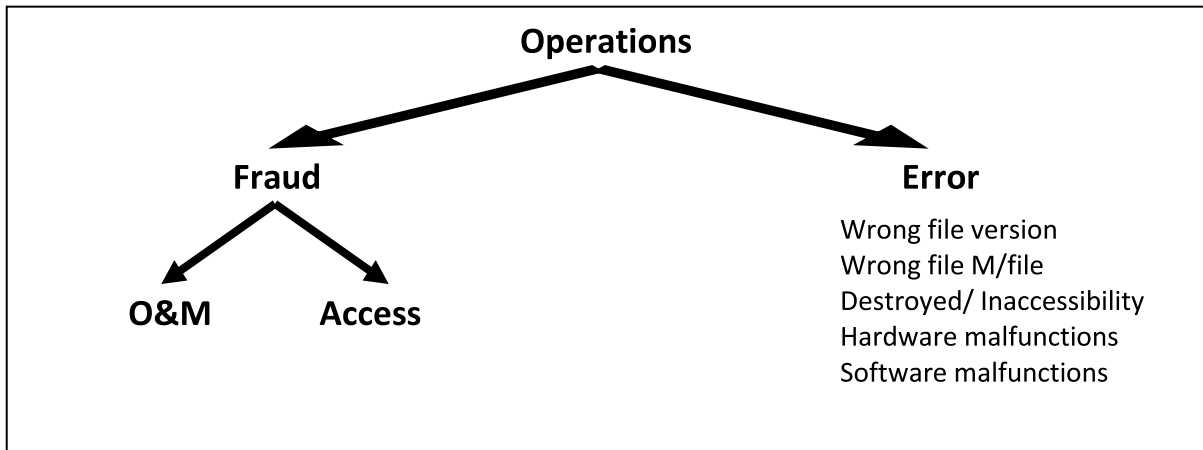


### Prevent (Physical & Logical)

- Facilities
  - ▷ Physical restriction
  - ▷ Highly visible
  - ▷ Terminal restriction
  - ▷ Firewalls
  - ▷ Personal access methods



**e. Operations**



**Prevent**

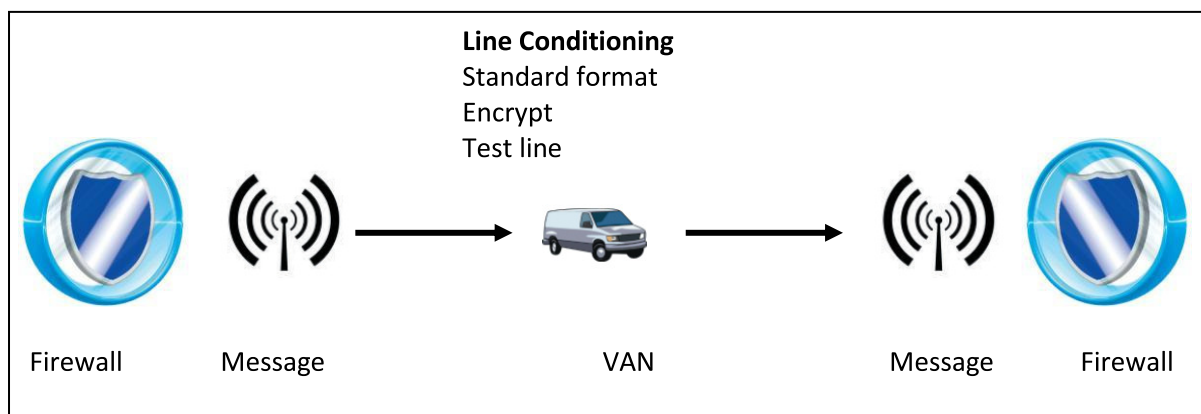
- Trained in their job functions
- Help available to detail their functions
- Use automated functions
- Utilising H/W malfunction controls & regular maintenance
- Good housekeeping
- PLMS
- Good labelling internal/external file labels

**Detect and Correct**

- Review logs
- Customer complaints
- Reconcile records

REMEMBER: What does PLMS stand for? \_\_\_\_\_

**Communications**



REMINDER: What does VAN stand for? \_\_\_\_\_

Communications

- Sender
  - ▷ sequence number
  - ▷ date stamp
  - ▷ user / terminal ID
  - ▷ header / trailer labels
  - ▷ web seal
  - ▷ https
  - ▷ firewall
  - ▷ cabling secure
- Receiver
  - ▷ confidential
  - ▷ validate source – dial back
  - ▷ digital signature
  - ▷ confirm receipt
  - ▷ trading partner agreement
    - ⇒ receipt / send time
    - ⇒ back-up
    - ⇒ access rights
    - ⇒ level of control
  - ▷ anti virus
  - ▷ reconcile @ digital level
  - ▷ review
    - ⇒ logs activity
    - ⇒ reports from VANS

**Exercise to be done in your own time**

Search on the web for precautions/ controls to implement to limit exposure to viruses. Suggestion: try your bank website or [www.standardbank.co.za](http://www.standardbank.co.za)



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## 3.6 Use of Third Parties

This section will be done in the final revision week as it combines all the previous concepts of Chapters 3 and 4.

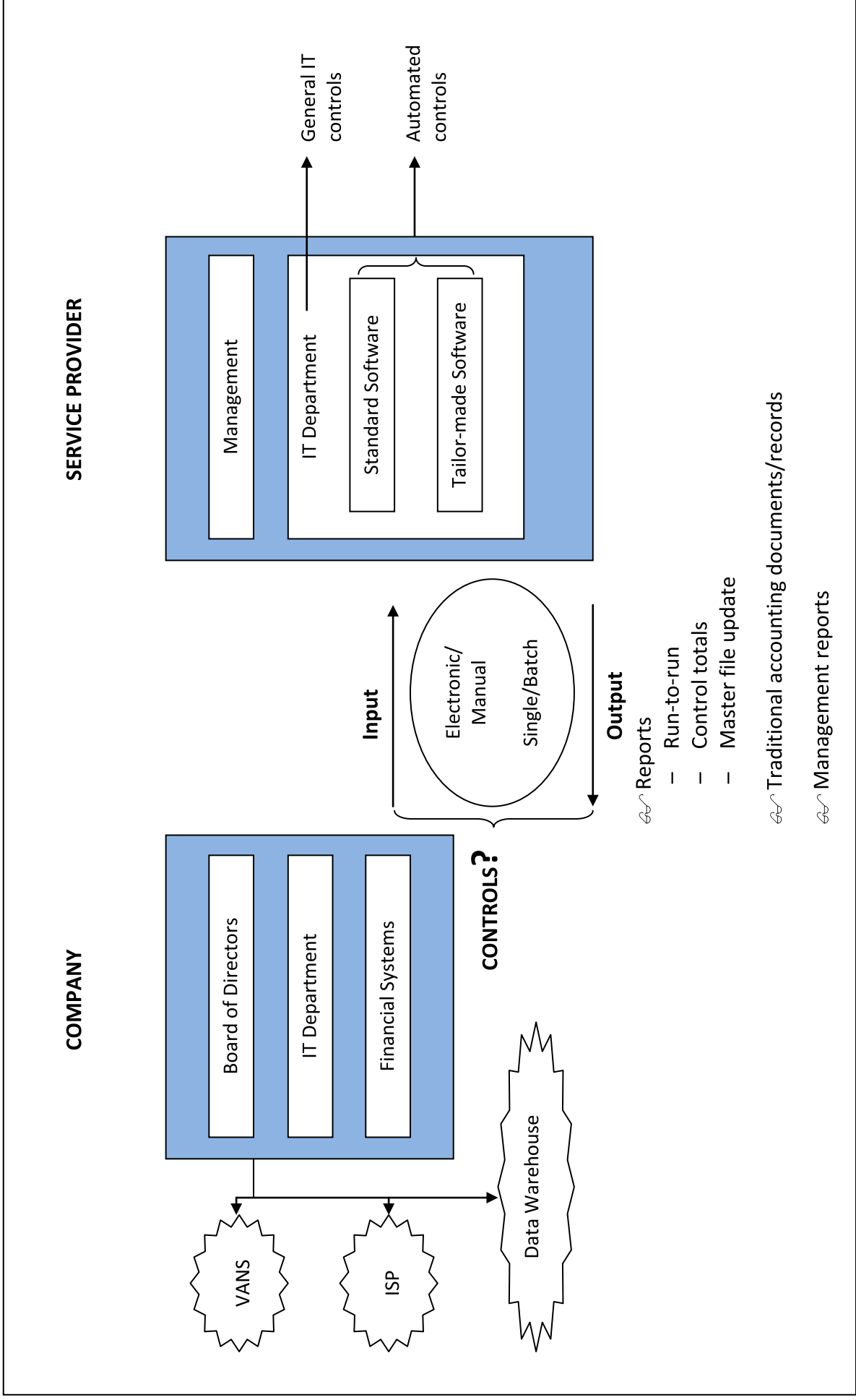
### Outsourcing in Financial Services Risks and Benefits

**Table 3: Some Key Risks in Outsourcing**

Risk	Major concerns
Strategic Risk	The third party may conduct activities on its own behalf which are inconsistent with the overall strategic goals of the regulated entity. Failure to implement appropriate oversight of the outsource provider. Inadequate expertise to oversee the service provider.
Reputation Risk	Poor service from third party. Customer interaction is not consistent with overall standards of the regulated entity. Third party practices not in line with stated practices (ethical or otherwise) of regulated entity.
Compliance Risk	Privacy laws are not complied with. Consumer and prudential laws not adequately complied with. Outsource provider has inadequate compliance systems and controls.
Operational Risk	Technology failure. Inadequate financial capacity to fulfil obligations and/or provide remedies. Fraud or error.
Risk	Major concerns
	Risk that firms find it difficult/costly to undertake inspections.
Exit Strategy Risk	The risk that appropriate exit strategies are not in place. This could arise from over-reliance on one firm, the loss of relevant skills in the institution itself preventing it bringing the activity back in-house, and contracts which make a speedy exit prohibitively expensive. Limited ability to return services to home country due to lack of staff or loss of intellectual history.
Counterparty Risk	Inappropriate underwriting or credit assessments. Quality of receivables may diminish.
Country Risk	Political, social and legal climate may create added risk. Business continuity planning is more complex.
Contractual Risk	Ability to enforce contract. For offshoring, choice of law is important.
Access Risk	Outsourcing arrangement hinders ability of regulated entity to provide timely data and other information to regulators. Additional layer of difficulty in regulator understanding activities of the outsource provider.
Concentration and Systemic Risk	Overall industry has significant exposure to outsource provider. This concentration risk has a number of facets, including: <ul style="list-style-type: none"> <li>Lack of control of individual firms over provider; and</li> <li>Systemic risk to industry as a whole.</li> </ul>

Extracted: [www.bis.org/pub/joint12.pdf?noframes=1](http://www.bis.org/pub/joint12.pdf?noframes=1)

**Example: Outsourced Payroll**



# Get outsource contract right

ALLAN DICKSON

OUTSOURCING, especially of information and communications technology (ICT) services, is a popular model in South Africa because it saves costs and provides specialised, scarce skills, either when they are needed for certain projects or on an ongoing basis.

There are benefits to organisations, including potentially lower costs, improved service delivery and flexibility in business operations. Smaller businesses can also take advantage of improved economies of scale.

But once they have outsourced such services, many organisations are unsure of whether they have made the right decision, and, perhaps more importantly, they cannot discern whether their outsource partner is providing a quality service.

With the release of the King III report, there is an increased emphasis on IT governance and the cost-effectiveness of the IT department.

Historically the governance of IT was left up to the chief information officer (CIO), but because of new regulations and recommendations, this has now become part of the responsibilities of the entire board of directors in large businesses.

As a result, there is an interest in discovering how efficient and effective outsource providers are.



**EFFECTIVE SOLUTION:** Outsourcing certain company roles, such as IT support, could be cost-effective if the contracted company has researched its business needs and knows the skills gaps to be addressed.

Service level agreements provide a framework for levels of quality and service, but a few years into a contract issues may creep in, including inconsistent pricing, gaps in service expectations, cultural fit, governance and performance measures.

The failure of an outsource partner to deliver on its agreements often goes all the way back to the contract between the client and the outsource company.

Because of the pressure on the CIO to reduce costs quickly, clients may enter into a complex contractual arrangement with an out-

sourced service provider without adequately understanding the contract and its implications. Rushing into signing a contract often causes discontent further down the line.

It's vital to ensure that the selected outsource partner has the skills and expertise to handle the client's needs. The client must research its business needs or what skills gaps need to be addressed.

Organisations need to be able to monitor and evaluate their outsource provider to ensure that service levels are acceptable, that pricing is consistent with the market and that the services provided are

still needed. An organisation should conduct a benchmarking exercise to verify these factors.

King III and the new Companies Act, due to come into effect soon, will require people to measure performance effectively, including financial performance.

IT forms a large part of this, and enterprises must make sure they can provide accurate data on costs and service levels of an outsource.

The CIO is accountable for the performance of IT, which means he or she is also responsible for the service levels, costs and effectiveness of outsourced services.

Getting the contract right at the outset is an important step to ensuring accountability, quality and high levels of service throughout the life of the agreement.

Because many CIOs do not have the necessary skills and experience for contract negotiation, it is a good idea to involve experts who do have experience in this part of the process.

When signing a contract with an outsource provider, there are several factors that the CIO should ensure are part of the agreement.

The service catalogue needs to be accurately defined, the chain of escalation of queries and issues must also be defined in advance and responsibilities should be clearly defined to ensure appropriate levels of service.

● Dickson is a consultant at Compass Management Consulting SA.

# Chapter 5 Case study

Populaire's Furnishings (Pty) Ltd is a private company registered within South Africa and operating in the retail sector. The main product lines of Populaire's Furnishings include household furniture. The customers of Populaire's Furnishings are mainly furniture companies.

Christine Daaé and Raoul de Chagny are old friends from university, and during 2010 they happened to meet up again. They discovered that they both still have a keen interest in household design and after discussing the current market, they decided to try and start a company that combines these two elements.

Christine and Raoul began conducting market research and also started the process of registering the company. They registered Populaire's Furnishings (Pty) Ltd on 14 November 2010 with CIPRO, as well as SARS (for the payment of Income Tax, VAT and PAYE, UIF and SDL). By the end of November they were ready to begin business and started buying inventory and capital assets. Through their market research they were able to generate a large amount of interest in their business and several customers expressed a keen interest in doing business with them as soon as they were properly set up.

Christine had been working in a big corporation for the last 10 years in finance, and was very adamant that they operate the business properly from the start. They therefore went about setting up systems for each aspect of the business.

One of their first decisions was a choice of computerised accounting package. Christine had previously worked with Pastel Partner, and after reviewing the current Pastel package as well as the other packages available, they came to the decision that the current Pastel Partner 2011 would best suit their needs. They therefore purchased the package and hired an I.T. company, IT Assist, to set up their computer systems.

## Setting up the Company using Pastel

As part of the setup, IT Assist requested Christine and Raoul to complete the following form, with all of the details of the company. They then set up the Pastel file.

Pastel Partner 2009 Set Up Information	
Company name	Populaire's Furnishings (Pty) Ltd [YOUR STUDENT NUMBER]
Postal Address	PO Box 5632
	Cape Town
	8000
Telephone	(021) 465 9237
Fax	(021) 465 9238
Email	comfort@populaire.com
Company Reg No	2011/8726/13
VAT Reg No	846935/86
First day of financial year	1 January 2011
Each period ends on	<u>Last day</u> / <del>Same day</del> of the month
Chart of Accounts to use	Retail
Number of cash books required	2
Names of cash books	Standard Bank Current Account, Petty Cash
Number of price lists required	3
Names of price lists	A, B, C
Debtor payment terms	30 days
Processing method	<u>Open Item</u> /Balance Forward

Once the company was created on Pastel, IT Assist began with the detailed setup. When setting up a computerised accounting system, you are able to input defaults and policies, which are applied to all transactions. This reduces the risk of human error. These defaults can be changed, and therefore passwords and other access controls should be in place to protect the integrity of transactions.

IT Assist used the following information to do the detailed setup of the company:

## Company Parameters

The financial indicator on the documents must be an **R** (South African Rand) and the thousand separators should be a space.

## Revenue Cycle

Customers have a few ways of purchasing the products and services from Populaire's Furnishings. Most orders are placed through the sales reps, but customers can also visit the company's premises and purchase goods over the counter. All goods are then delivered to the customers address, or if they are walk in customers they may collect the goods themselves.

## Customer's Setup

Populaire's Furnishings (Pty) Ltd has the policy of allowing selected clients a credit account in the hope of encouraging increased purchases.

1. A default credit limit is allocated to a credit client after a thorough credit check is performed in terms of the National Credit Act. This credit limit can, however be overridden by management in specific situations and different clients do have different credit terms. When a customer will exceed their credit limit with the current purchase Pastel will automatically notify the user, and management will need to authorise the purchase.
2. The VAT inclusive system is the entry method used for invoices, as all clients are billed at inclusive amounts and only inclusive amounts are ever advertised.
3. If the Account is overdue, interest will be charged.
4. Early settlement discounts are offered. The payment must be received within the specified number of days *from the date of the invoice*.
5. The Sales Invoices include famous quotes.
6. Customers are categorized as "*Gold, Silver, Bronze and Staff*"
7. The two sales people, Joseph Buquet (Rep Code: JoBu) and Meg Giry (Rep Code: MeGi), earn commission based on the total sales made for the year. The sales people don't earn commission on cash sales or sales to staff.

Both reps will earn commission based on this table:

Amount	Commission
R0 - R14 999.99	7%
R15 000.00 - R34 999.99	15%
R35 000.00 onwards	25%

## Expenditure Cycle

All inventory is purchased on credit, either from local suppliers or imported. Goods are ordered when the inventory levels fall below the minimum levels, and the goods are then delivered or collected by Populaire's Furnishings.

### Supplier's Setup

1. Suppliers are all processed on the *Open Item* method.
2. There is no use of GRN's (goods received notes)
3. Since the *Exclusive* system is most commonly used, it is applied as a DEFAULT setting.
4. It is decided that all accounts must be paid within 75 days.
5. The Supplier Invoices and Return/Debit Notes should be set up so that the Item Code is the Invoice Lines Default.

**NOTE:** Always enter/process all supplier invoices and then check the invoice data carefully before batching.

### Inventory Setup

1. The inventory has two groups 001: Service, 002: Inventory
2. The automatically allocated full integration system is applicable to the inventory system (as the company uses the perpetual system of accounting for inventory).
3. A minimum gross profit is applied.
4. Sales orders should reserve inventory.
5. The unit description is each.
6. DEFAULT Inventory Group: 002: Inventory.
7. **Do not forget to change the inventory group to "Service" for service items.**

## Master files

The next step in setting up a company on a computerised accounting package is creating master files. A master file is a piece of information which will be accessed by the system at various points during the processing of transactions. The advantage of creating a master file is that the information is entered once, and then can be consistently applied throughout the year.

An example is where a master file is created for a customer. All of the customer information is entered, and then every time that the customer is invoiced or pays the company, the customer information can be automatically included, without having to be manually entered each time. It is therefore critical that there are appropriate controls to ensure that the initial entry of the information is valid, accurate and complete and that it does not get changed fraudulently or in error.

Master files are typically created for customers, suppliers, inventory items and employees. The Pastel package being used by the company does not include a payroll module, and therefore the company has to keep manual records for their employees.

IT Assist created the following master files:

### Supplier master files

<b>Name:</b>	Diva Comfort CC	Phantom Sofas Ltd	Firmin and André CC	Leading Seating Ltd
<b>Code:</b>	DIV001	PHA001	FIR001	LEA001
<b>Contact Name:</b>	Carlotta Giudicelli	Erik Engel	Gilles André	Ubaldo Piangi
<b>Tel:</b>	(011) 683 9745	(021) 529 4561	(031) 456 7841	(011) 448 1002
<b>Email Address:</b>	<a href="mailto:carlotta.g@diva.net">carlotta.g@diva.net</a>	<a href="mailto:ee@phantom.co.uk">ee@phantom.co.uk</a>	<a href="mailto:gilles@fanda.com">gilles@fanda.com</a>	<a href="mailto:piangi@lead.net">piangi@lead.net</a>
<b>Credit Limit:</b>	R 120 000	R 103 000	R 180 000	R 130 000
<b>VAT No:</b>	4821679510	8754216943	4558713051	2465871357

### Customer master files

<b>Code:</b>	DJT	AMC	STB	BLK001
<b>Name:</b>	Don Juan Triumphant Ltd	Point of No Return CC	Stilgoe Brothers CC	Webber Home Compositions CC
<b>Category:</b>	Gold	Bronze	Gold	Silver
<b>Buyers Name:</b>	Charles Hart	Aminta Carson	Richard Stilgoe	Andrew Lloyd
<b>Tel:</b>	(011) 681 1290	(021) 891 2739	(021) 238 2892	(011) 271 0839
<b>Email Address:</b>	<a href="mailto:hart@donjuan.co.za">hart@donjuan.co.za</a>	<a href="mailto:aminta@noreturn.org">aminta@noreturn.org</a>	<a href="mailto:richard@stilgoe.com">richard@stilgoe.com</a>	<a href="mailto:andrewlloyd@webber.co.za">andrewlloyd@webber.co.za</a>
<b>Sales Code:</b>	MeGi	JoBu	MeGi	MeGi
<b>VAT No:</b>	455465655	343646777	2346262125	4358328989
<b>Email Statements:</b>	Yes	Yes	Yes	Yes
<b>Early Terms:</b>	8% within 15 days	5% within 10 days	6% within 10 days	8% within 10 days
<b>Price List:</b>	B	C	A	A
<b>Credit Limit:</b>	Default	R 50 000	R 96 000	Default

<b>Code:</b>	PRH001	CASH	JoBu001	MeGi001
<b>Name:</b>	Lefevre Designs Ltd	Cash Sales	Joseph Buquet	Meg Giry
<b>Category:</b>	Bronze	Bronze	Staff	Staff
<b>Buyers Name:</b>	Gerald Reyer			
<b>Tel:</b>	(021) 448 4457			
<b>Email Address:</b>	<a href="mailto:reyer@lefevre.net">reyer@lefevre.net</a>			
<b>Sales Code:</b>	JoBu			
<b>VAT No:</b>	1542987630			
<b>Email Statements:</b>	Yes			
<b>Early Terms:</b>	6% within 15 days	None	15% staff discount	15% staff discount
<b>Price List:</b>	B	C	C	C
<b>Credit Limit:</b>	R 75 000	R 0	R 0	R 0

## Inventory master files

Inventory master files include inventory categories and individual inventory items.

The following categories need to be added as master files: Beds, Sofas, Tables, Chairs, Wardrobes and Dressers.

The following inventory items need to be created. Note that selling prices are **exclusive of VAT**.

<b>Name:</b>	Diva Single Bed	Diva Double Bed	Diva Queen-Size Bed	Diva King-Size Bed	Two-seater sofa	Three-seater sofa	Dining Room Chair
<b>Code:</b>	DBSB01	DBDB01	DBQB01	[Student Nr]	TWSO01	THSO01	M543842/66/8
<b>Category:</b>	Beds	Beds	Beds	Beds	Sofas	Sofas	Chairs
<b>A:</b>	R 3 550	R 4 010	R 6 750	R 6 870	R 4 870	R 7 620	R 420
<b>B:</b>	R 4 260	R 4 820	R 8 100	R 8 250	R 5 850	R 9 150	R 510
<b>C:</b>	R 4 970	R 5 620	R 9 450	R 9 620	R 6 820	R 10 670	R 590
<b>Min/Max:</b>	10/75	10/75	10/75	10/75	50/120	50/120	25/150
<b>Supplier:</b>	DIV001	DIV001	DIV001	DIV001	PHA001	PHA001	LEA001

<b>Name:</b>	Recliner	Round Dining Table	Coffee table	Wardrobe with mirror	Four-Drawer Dresser	Re-upholstering sofas	Repairing Woodwork
<b>Code:</b>	M826486/42/2	T54638D7	T58462C2	W84626M4	D54381F6	S/RU423	W/RE652
<b>Category:</b>	Chairs	Tables	Tables	Wardrobes	Dressers	<b>Service</b>	<b>Service</b>
<b>A:</b>	R 1 080	R 1 560	R 1 470	R 1 330	R 1 390	R 560	R 500
<b>B:</b>	R 1 300	R 1 880	R 1 770	R 1 600	R 1 670	R 680	R 600
<b>C:</b>	R 1 520	R 2 190	R 2 060	R 1 870	R 1 950	R 790	R 700
<b>Min/Max:</b>	20/120	30/50	30/50	30/75	30/75	<b>Service</b>	<b>Service</b>
<b>Supplier:</b>	LEA001	FIR001	FIR001	FIR001	FIR001	<b>Service</b>	<b>Service</b>

# Getting the Company started

Once Christine and Raoul had made their decision to use IT Assist with the setup of the company on Pastel, they were able to begin getting ready for operating in the new year, while IT Assist did the setup.

During December 2010 they started purchasing non-current assets that they would need when operations started in January. In order to do these purchases the company needed funds, and Christine and Raoul accordingly paid their capital contributions, and approached financial institutions for additional finance.

The Memorandum of Incorporation provided for authorised share capital of 1 000 000 shares without preferential rights to distributions. Christine and Raoul each contributed R 250 000 as their initial capital contribution for 23 000 shares each. The shares were issued on 13 December 2010.

Funding from Business Partners was gained and thus they had a further R 500 000 to start the business with. This loan incurs interest at a fixed rate per annum, which does not vary with prime. Capital repayments of R 18 000 are made every six months on the 30<sup>th</sup> of June and 31<sup>st</sup> of December respectively. Interest for the previous year will be required to be paid in arrears on the 1<sup>st</sup> January of the following year. The loan was granted to the company on 31 December 2010.

The non-current assets were all purchased on 31 December 2010.

Christine and Raoul began purchasing inventory in October in their own names, but the suppliers were happy for the obligation to be transferred to the company once it was formed.

They decided to hire two sales people, so that they could focus on the day to day running of the business. Joseph Buquet and Meg Giry were hired, and their responsibilities include finding new customers and making sales to existing customers. Their employment contracts were signed on 15 December 2010, with their employment to begin 1 January 2011. Their monthly salaries are set at R 12 000 each, from which PAYE and UIF are deducted according to the current legislation. In addition, they can earn commission based on their sales, which is calculated on an annual basis and paid in December or January. The commission payable (which is calculated by Pastel, and can be viewed in the Sales Analysis Code Commissions report) is not subject to normal PAYE and other deductions. When the sales people prepare their personal tax returns they will take into account the income tax payable. The company has no obligation in this regard.

The company is liable to pay PAYE (Pay As You Earn Income tax), UIF (Unemployment Insurance Fund contributions) and SDL (Skills Development Levy) to SARS each month when the salaries are paid. PAYE is calculated based on the current tax tables issued by SARS each year. Christine could only find an old version of the tax tables from 2007/2008. For the year ended 31 December 2011 the tax tables for the 2011/2012 year will need to be obtained from the SARS website. UIF is calculated at 1% of an employee's salary, but is limited to R 124.78 per month if the 1% would result in a higher contribution.

In addition to the amounts deducted from the sales people's salaries, the company has to contribute an additional amount for UIF and SDL. The UIF company contribution is equal to the employee's contribution, and the SDL is calculated as 1% of total salaries paid by the company, with no limit.

The company also entered into a rental agreement on 31 December 2010, for occupation beginning 1 January 2011. The building rented can be used as a warehouse, and also has a show room and offices, so the entire business can be run from these premises. The agreement was negotiated so that rental is paid annually in arrears. The company also entered into agreements with Telkom and Eskom to have an annual billing for their telephone and electricity bills.

# Entering Opening Balances

If a company has been operating before they begin using a computerised accounting package, they will have already completed some transactions, which will result in there being opening balances.

In this case, Populaire's Furnishings began purchasing inventory and other assets during 2010. This resulted in the following opening balances which needed to be entered into Pastel before the processing for 2011 could begin.

## Trial Balance

Trial Balance at 31/12/2010			
Account		DR R	CR R
5100/000	Share Capital / Members Contribution		500 000.00
5500/000	Long Term Liabilities		500 000.00
6200/010	Motor Vehicles - @ Cost	320 000.00	
6250/010	Computer Equipment - @ Cost	167 000.00	
6350/010	Furniture & Fittings - @ Cost	182 000.00	
7700/000	Inventory Control Account	1 238 672.00	
8400/000	Current Bank	325 570.00	
8410/000	Petty Cash	5 430.00	
8000/000	Customer Control	-	
9000/000	Suppliers Control		1 412 086.08
9500/000	VAT Control	173 414.08	
		<b>2 412 086.08</b>	<b>2 412 086.08</b>

## Supplier Age Analysis

Code	Name	90 Days	60 Days	30 Days	Current	Total Due
DIV001	Diva Comfort CC	-	-	110 808.00	249 660.00	<b>360 468.00</b>
PHA001	Phantom Sofas Ltd	-	-	-	179 882.88	<b>179 882.88</b>
FIR001	Firmin and André CC	-	-	38 447.64	95 361.00	<b>133 808.64</b>
LEA001	Leading Seating Ltd	-	487 350.00	-	250 576.56	<b>737 926.56</b>
	<b>TOTAL</b>	-	<b>487 350.00</b>	<b>149 255.64</b>	<b>775 480.44</b>	<b>1 412 086.08</b>

## Customer Age Analysis

Code	Name	90 Days	60 Days	30 Days	Current	Total Due
DJT	Don Juan Triumphant Ltd	-	-	-	-	-
AMC	Point of No Return CC	-	-	-	-	-
STB	Stilgoe Brothers CC	-	-	-	-	-
BLK001	Webber Home Compositions CC	-	-	-	-	-
PRH001	Lefevre Designs Ltd	-	-	-	-	-
	<b>TOTAL</b>	-	-	-	-	-

## Inventory Valuation

Code	Description	On Hand	Cost	Value
DBSB01	Diva Single Bed	30	R 2 300.00	69 000.00
DBDB01	Diva Double Bed	36	R 2 700.00	97 200.00
<b>DBQB01</b>	Diva Queen-Size Bed	50	R 3 000.00	150 000.00
[Student Nr]	Diva King-Size Bed	15	R 3 500.00	52 500.00
TWSO01	Two-seater sofa	65	R 3 000.00	195 000.00
THSO01	Three-seater sofa	95	R 4 500.00	427 500.00
M543842/66/8	Dining Room Chair	106	R 234.00	24 804.00
M826486/42/2	Recliner	92	R 785.00	72 220.00
T54638D7	Round Dining Table	46	R 960.00	44 160.00
T58462C2	Coffee table	35	R 890.00	31 150.00
W84626M4	Wardrobe with mirror	33	R 1 022.00	33 726.00
D54381F6	Four-Drawer Dresser	42	R 986.00	41 412.00
	<b>TOTAL</b>			<b>1 238 672.00</b>

## Operating the Company

1 January 2011 finally arrived, and the company was able to start operating. The two sales people immediately began contacting the customers and making sales, and the company continued purchasing inventory as and when required.

As part of their preparations for the audit that would be done after the financial year end, Christine and Raoul accumulated all of their source documents in an audit file. This audit file is included in Appendix A. When the processing of transactions was done in Pastel, all of these source documents were used.

On 31 December an inventory count was conducted. The following inventory quantities were counted:

Code	Description	On Hand
DBSB01	Diva Single Bed	19
DBDB01	Diva Double Bed	64
DBQB01	Diva Queen-Size Bed	70
[Student Nr]	Diva King-Size Bed	105
TWSO01	Two-seater sofa	70
THSO01	Three-seater sofa	101
M543842/66/8	Dining Room Chair	60
M826486/42/2	Recliner	29
T54638D7	Round Dining Table	41
T58462C2	Coffee table	39
W84626M4	Wardrobe with mirror	30
D54381F6	Four-Drawer Dresser	16

During the year Christine and Raoul began looking for ways to expand their operations.

Although Populaire's Furnishings is a retail company, and thus only purchases finished goods which are sold on to customers, they became very interested in the manufacturing processes behind some of their products, and are contemplating expanding their operations to manufacturing in the future. One of the products they purchase, Diva Single Bed, seemed like the most viable product to begin manufacturing themselves. They therefore contacted their suppliers and organised a factory tour, where they were able to get a better understanding of the manufacturing process.

The other innovation that they began considering towards the end of the year is branching out to online sales. They approached IT Assist to find out about setting up a website, and to find out more about the process. They felt that they would be able to reach a greater portion of the market if their products were more accessible to the general public. IT Assist was happy to help them, and at year end they were busy putting together a proposal for Christine and Raoul to consider.

Companies in South Africa are taxed at a flat rate 27% for the entire financial year. You can assume that accounting net profit will be equal to taxable income, and that Populaire's Furnishings (Pty) Ltd has a tax year of assessment ending on 31 December. Any assessed loss will be carried forward and deducted from taxable income in the following year of assessment.

# Assignments

## ACC2012W

Complete the Pastel Project, as per the separate handout.  
Obtain the PAYE rates for 2011/2012 from the SARS website.  
Find out (from the SARS website) what the % imports to exports for



## ACC2018S

Visit a website that sell Diva Single Bed on-line and purchase Diva Single Bed (only up to the stage of payment confirmation) and list any operational or control aspects that you would want included in an on-line website.

Prepare a creditors' reconciliation for Diva Comfort CC from the information provided in Appendix A.

Identify at least 5 suspicious activities that you think could be relevant to Populaire's Furnishings (Pty) Ltd. State your reasons.

HINT: Use HELP on SARS's website to find 'suspicious activity'.





# Appendix A: Source Documents

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## **Contents:**

1. Supplier Invoices
2. Customer Order Books
3. Copy Customer Tax Invoice (provided for illustrative purposes only)
4. Customer Credit Note
5. Cheque stubs
6. Deposit slips
7. Bank statement

Supplier Invoices

# Phantom Sofas Ltd

1867 Greens Place  
13th Avenue, Salt River  
Ph.: (021) 529 4561  
Fax: 0860 6780 349  
Cell: 072 349 4846  
E-mail: ee@phantom.co.uk  
Vat no. 8754216943

Invoice no AG/276  
Date 04-Jan-11

## Tax Invoice

To:  
POPULAIRE'S FURNISHINGS  
PO BOX 5632  
CAPE TOWN  
Att: Christine Daaé

	<i>Unit Price</i>	<i>Quantity</i>	<i>Amount</i>
Recliner	R 795.00	30	R 23 850.00

*Christine Daaé*

Signed:.....

*Sub Total* R 23 850.00  
*Vat* R 3 339.00  
*Total* R 27 189.00

# FIRMIN AND ANDRÉ CC

58 Hof St

1999/249785/23

58 Hof St

Durban North

Durban North

Tel, Fax : (031) 456 7841

Cell: 084 679 8456

4796

10 January 2011

VENDOR No 4558713051

Ref.: INV/766

POPULAIRE'S FURNISHINGS  
PO BOX 5632  
CAPE TOWN  
8000

20 Coffee table

@

R 980.00

R 19 600.00

Sub Total:

R 19 600.00

VAT:

R 2 744.00

Total:

R 22 344.00

*If unsatisfied goods must be returned in good order within 7 days*

# Diva Comfort CC

## TAX INVOICE

Billed to: Populaire's Furnishings  
PO Box 5632  
Cape Town  
8000

Invoice No. CG/276

Diva Comfort CC VAT Reg No: 4821679510
---

VAT number: 846935/86

PO Box 59875, Parktown, 2500  
178 Zooberg Close, Parktown, 2498  
Contact: (011) 683 9745

Account	Purchase Order No	Order Date	Terms	Invoice Date	
POP005	PO0009	05/02/2011	30 days	08/02/2011	
Qty	Description	Unit Price	VAT	Total	
20	Diva Single Bed	2 530.00	7 084.00	57 684.00	
		VAT	Subtotal	Amount Received	Amount Due
		7 084.00	57 684.00	-	57 684.00

**PLEASE QUOTE INVOICE NUMBER ON PAYMENT**

**Banking Details:**

**Bank: Nedbank**  
Branch: Business Central Branch Guateng - 128 405  
Acc No: 1234 567 890

# Diva Comfort CC

## TAX INVOICE

Billed to: Populaire's Furnishings  
PO Box 5632  
Cape Town  
8000

Invoice No. CG/301

Diva Comfort CC VAT Reg No: 4821679510
---

VAT number: 846935/86

PO Box 59875, Parktown, 2500  
178 Zooberg Close, Parktown, 2498  
Contact: (011) 683 9745

Account	Purchase Order No	Order Date	Terms	Invoice Date	
POP005	PO0010	16/03/2011	30 days	20/03/2011	
Qty	Description	Unit Price	VAT	Total	
8	Diva Single Bed	2 530.00	2 833.60	23 073.60	
		VAT	Subtotal	Amount Received	Amount Due
		2 833.60	23 073.60	-	23 073.60

**PLEASE QUOTE INVOICE NUMBER ON PAYMENT**

**Banking Details:**

**Bank: Nedbank**  
Branch: Business Central Branch Guateng - 128 405  
Acc No: 1234 567 890

# Diva Comfort CC

## TAX INVOICE

Billed to: Populaire's Furnishings  
PO Box 5632  
Cape Town  
8000

Invoice No. CG/315

Diva Comfort CC VAT Reg No: 4821679510
---

VAT number: 846935/86

PO Box 59875, Parktown, 2500  
178 Zooberg Close, Parktown, 2498  
Contact: (011) 683 9745

Account	Purchase Order No	Order Date	Terms	Invoice Date	
POP005	PO0011	26/05/2011	30 days	30/05/2011	
Qty	Description	Unit Price	VAT	Total	
13	Diva Single Bed	2 530.00	4 604.60	37 494.60	
41	Diva Double Bed	2 970.00	17 047.80	138 817.80	
100	Diva Queen-Size Bed	3 750.00	52 500.00	427 500.00	
		VAT	Subtotal	Amount Received	Amount Due
		74 152.40	603 812.40	-	603 812.40

**PLEASE QUOTE INVOICE NUMBER ON PAYMENT**

**Banking Details:**

**Bank: Nedbank**  
Branch: Business Central Branch Guateng - 128 405  
Acc No: 1234 567 890

Leading Seating Ltd

**Tax Invoice**

<b>Date</b> Jun 08, 2011	<b>Page</b> 1
<b>Order Number</b> QTE0083084	

8 Newlands Road  
Newlands  
Gauteng, 2479  
Tel: (011) 448 1002  
Fax: 0860 741 649  
Vat No: 2465871357

**Sold to:**

Populaire's Furnishings  
PO Box 5632  
Cape Town  
8000

**Ship to:**

Populaire's Furnishings  
PO Box 5632  
Cape Town  
8000

<b>Reference</b>	<b>PO Number</b> PO0012	<b>Customer No</b> POPU00798	<b>Order Date</b> May 29, 2011	<b>Terms</b> 14DINV
------------------	----------------------------	---------------------------------	-----------------------------------	------------------------

Qty. Ord.	Item Number	Description	Unit Price (excl VAT)	Extended Price
100	197485	Two-seater sofa	R 3 605.00	R 360 500.00
30	164897	Dining Room Chair	R 310.00	R 9 300.00
20	148795	Three-seater sofa	R 5 853.00	R 117 060.00

**Comments:**

<b>Subtotal</b>	<b>R 486 860.00</b>
<b>Total tax</b>	<b>R 68 160.40</b>
<b>Total order</b>	<b>R 555 020.40</b>

# FIRMIN AND ANDRÉ CC

58 Hof St

1999/249785/23

58 Hof St

Durban North

Durban North

Tel, Fax : (031) 456 7841

Cell: 084 679 8456

4796

24 June 2011

VENDOR No 4558713051

Ref.: INV/857

POPULAIRE'S FURNISHINGS

PO BOX 5632

CAPE TOWN

8000

35	Diva King-Size Bed	@	R 4 905.00	R 171 675.00
5	Coffee table	@	R 980.00	R 4 900.00

Sub Total: R 176 575.00

VAT: R 24 720.50

Total: R 201 295.50

*If unsatisfied goods must be returned in good order within 7 days*

# Phantom Sofas Ltd

1867 Greens Place  
13th Avenue, Salt River  
Ph.: (021) 529 4561  
Fax: 0860 6780 349  
Cell: 072 349 4846  
E-mail: ee@phantom.co.uk  
Vat no. 8754216943

Invoice no AG/479  
Date 07-Jul-11

## Tax Invoice

To:  
POPULAIRE'S FURNISHINGS  
PO BOX 5632  
CAPE TOWN  
Att: Christine Daaé

	<i>Unit Price</i>	<i>Quantity</i>	<i>Amount</i>
Recliner	R 800.00	45	R 36 000.00
Round Dining Table	R 1 152.00	30	R 34 560.00
Four-Drawer Dresser	R 991.00	20	R 19 820.00

*Christine Daaé*

Signed:.....

*Sub Total* R 90 380.00  
*Vat* R 12 653.20  
*Total* R 103 033.20

# Diva Comfort CC

## TAX INVOICE

Billed to: Populaire's Furnishings  
PO Box 5632  
Cape Town  
8000

Invoice No. CG/479

Diva Comfort CC VAT Reg No:  
4821679510

VAT number: 846935/86

PO Box 59875, Parktown, 2500  
178 Zooberg Close, Parktown, 2498  
Contact: (011) 683 9745

Account	Purchase Order No	Order Date	Terms	Invoice Date	
POP005	PO0015	23/10/2011	30 days	27/10/2011	
Qty	Description	Unit Price	VAT	Total	
8	Diva Single Bed	2 535.00	2 839.20	23 119.20	
		VAT	Subtotal	Amount Received	Amount Due
		2 839.20	23 119.20	-	23 119.20

**PLEASE QUOTE INVOICE NUMBER ON PAYMENT**

**Banking Details:**

**Bank: Nedbank**  
Branch: Business Central Branch Guateng - 128 405  
Acc No: 1234 567 890

Leading Seating Ltd

**Tax Invoice**

<b>Date</b> Dec 14, 2011	<b>Page</b> 1
<b>Order Number</b> QTE0084179	

8 Newlands Road  
Newlands  
Gauteng, 2479  
Tel: (011) 448 1002  
Fax: 0860 741 649  
Vat No: 2465871357

**Sold to:**

Populaire's Furnishings  
PO Box 5632  
Cape Town  
8000

**Ship to:**

Populaire's Furnishings  
PO Box 5632  
Cape Town  
8000

<b>Reference</b>	<b>PO Number</b> PO0016	<b>Customer No</b> POPU00798	<b>Order Date</b> Dec 04, 2011	<b>Terms</b> 14DINV
------------------	----------------------------	---------------------------------	-----------------------------------	------------------------

Qty. Ord.	Item Number	Description	Unit Price (excl VAT)	Extended Price
30	148795	Three-seater sofa	R 5 860.00	R 175 800.00
30	164897	Dining Room Chair	R 318.00	R 9 540.00

Comments:

<b>Subtotal</b>	<b>R 185 340.00</b>
<b>Total tax</b>	<b>R 25 947.60</b>
<b>Total order</b>	<b>R 211 287.60</b>

## Customer Order Books

### Joseph Buquet


Date	Order No.	Customer	Qty	Code	Item	Per Item	Selling Price (incl)
16/01/2011	C089	Don Juan Triumphant Ltd	6	DBSB01	Diva Single Bed	R 4 047.00	R 24 282.00
			8	[Student Nr]	Diva King-Size Bed	R 7 831.80	R 62 654.40
			17	TWS001	Two-seater sofa	R 5 551.80	R 94 380.60
			20	THS001	Three-seater sofa	R 8 686.80	R 173 736.00
			30	M826486/42/2	Recliner	R 1 231.20	R 36 936.00
			14	T54638D7	Round Dining Table	R 1 778.40	R 24 897.60
			5	T58462C2	Coffee table	R 1 675.80	R 8 379.00
			1	W84626M4	Wardrobe with mirror	R 1 516.20	R 1 516.20
			20	D54381F6	Four-Drawer Dresser	R 1 584.60	R 31 692.00
					<b>Total</b>		<b>R 458 473.80</b>
20/02/2011	C898	Joseph Buquet	18	DBSB01	Diva Single Bed	R 5 665.80	R 101 984.40
					Discount	15%	-R 15 297.66
					<b>Total</b>		<b>R 86 686.74</b>
27/02/2011	E321	Don Juan Triumphant Ltd	6	S/RU423	Re-upholstering sofas	R 638.40	R 3 830.40
			1	W/RE652	Repairing Woodwork	R 570.00	R 570.00
					<b>Total</b>		<b>R 4 400.40</b>
27/03/2011	43709	Webber Home Compositions CC	10	DBDB01	Diva Double Bed	R 5 494.80	R 54 948.00
			9	S/RU423	Re-upholstering sofas	R 775.20	R 6 976.80
					<b>Total</b>		<b>R 61 924.80</b>
11/05/2011	BD2343	Point of No-Return CC	32	DBQB01	Diva Queen-Size Bed	R 9 234.00	R 295 488.00
			6	S/RU423	Re-upholstering sofas	R 775.20	R 4 651.20
					<b>Total</b>		<b>R 300 139.20</b>
15/07/2011	F444	Don Juan Triumphant Ltd	18	DBSB01	Diva Single Bed	R 4 047.00	R 72 846.00
			12	[Student Nr]	Diva King-Size Bed	R 7 831.80	R 93 981.60
			65	TWS001	Two-seater sofa	R 5 551.80	R 360 867.00
			52	M543842/66/8	Dining Room Chair	R 478.80	R 24 897.60
			60	M826486/42/2	Recliner	R 1 231.20	R 73 872.00
			21	T54638D7	Round Dining Table	R 1 778.40	R 37 346.40
			10	T58462C2	Coffee table	R 1 675.80	R 16 758.00
			2	W84626M4	Wardrobe with mirror	R 1 516.20	R 3 032.40
			24	D54381F6	Four-Drawer Dresser	R 1 584.60	R 38 030.40
					<b>Total</b>		<b>R 721 631.40</b>

Date	Order No.	Customer	Qty	Code	Item	Per Item	Selling Price (incl)
14/08/2011	J777	Cash Sales	18	DBSB01	Divia Single Bed	R 5 665.80	R 101 984.40
			12	S/RU423	Re-upholstering sofas	R 900.60	R 10 807.20
						<b>Total</b>	<b>R 112 791.60</b>
28/09/2011	BD9865	Point of No Return CC	23	THSO01	Three-seater sofa	R 10 431.00	R 239 913.00
						<b>Total</b>	<b>R 239 913.00</b>
28/10/2011	97R09	Webber Home Compositions CC	54	M543842/66/8	Dining Room Chair	R 581.40	R 31 395.60
						<b>Total</b>	<b>R 31 395.60</b>
07/12/2011	12V09	Webber Home Compositions CC	16	DBQB01	Divia Queen-Size Bed	R 9 234.00	R 147 744.00
			32	M826486/42/2	Recliner	R 1 482.00	R 47 424.00
			32	S/RU423	Re-upholstering sofas	R 775.20	R 24 806.40
						<b>Total</b>	<b>R 219 974.40</b>


### Meg Giry

Date	Order No.	Customer	Qty	Code	Item	Per Item	Selling Price (incl)
30/01/2011	E459	Lefevre Designs Ltd	4	W/R£652	Repairing Woodwork	R 684.00	R 2 736.00
						<b>Total</b>	<b>R 2 736.00</b>
11/04/2011	233G	Stilgoe Brothers CC	32	S/RU423	Re-upholstering sofas	R 775.20	R 24 806.40
						<b>Total</b>	<b>R 24 806.40</b>
15/07/2011	432	Cash Sales	50	S/RU423	Re-upholstering sofas	R 900.60	R 45 030.00
						<b>Total</b>	<b>R 45 030.00</b>
09/08/2011	32KL	Stilgoe Brothers CC	3	DBDB01	Divia Double Bed	R 5 494.80	R 16 484.40
			13	DBQB01	Divia Queen-Size Bed	R 9 234.00	R 120 042.00
			3	[Student Nr]	Divia King-Size Bed	R 9 405.00	R 28 215.00
			6	F58462E2	Coffee table	R 2 017.80	R 12 106.80
						<b>Total</b>	<b>R 176 848.20</b>
13/10/2011	1007	Meg Giry	11	FWS001	Two-seater sofa	R 7 774.80	R 85 522.80
			16	M826486/42/2	Recliner	R 1 732.80	R 27 724.80
					Discount	15%	-R 16 987.14
						<b>Total</b>	<b>R 96 260.46</b>
17/12/2011	E597	Lefevre Designs Ltd	19	DBQB01	Divia Queen-Size Bed	R 9 234.00	R 175 446.00
			19	S/RU423	Re-upholstering sofas	R 775.20	R 14 728.80
						<b>Total</b>	<b>R 190 174.80</b>

**Copy Customer Tax Invoice**

<p>Populaire's Furnishings PO Box 5632 Cape Town 8000</p>		<p><b>Tax Invoice</b></p> <p>Date: 16/01/2011</p> <p>Page: 1</p> <p>Document No: INA0001</p>																																																																																
<p>Don Juan Triumphant Ltd 4298 Bilton Road Sandton 2197</p>	<p>Deliver to</p> <p>Don Juan Triumphant Ltd 4298 Bilton Road Sandton 2197</p>																																																																																	
<table border="1" style="width:100%; border-collapse: collapse;"> <thead> <tr> <th style="width:15%;">Account</th> <th style="width:25%;">Your Reference</th> <th style="width:15%;">Tax Exempt</th> <th style="width:20%;">Tax Reference</th> <th style="width:25%;">Sales Code</th> </tr> </thead> <tbody> <tr> <td>DJT</td> <td>C089</td> <td style="text-align: center;">N</td> <td>455465655</td> <td style="text-align: center;">JoBu Inclusive</td> </tr> </tbody> </table>			Account	Your Reference	Tax Exempt	Tax Reference	Sales Code	DJT	C089	N	455465655	JoBu Inclusive																																																																						
Account	Your Reference	Tax Exempt	Tax Reference	Sales Code																																																																														
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**Customer Credit Note**

<p>Populaire's Furnishings PO Box 5632 Cape Town 8000</p>		<p><b>Credit Note</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Date</td> <td style="text-align: right;">22/07/2011</td> </tr> <tr> <td>Page</td> <td style="text-align: right;">1</td> </tr> <tr> <td>Document No</td> <td style="text-align: right;">ICA10001</td> </tr> </table>	Date	22/07/2011	Page	1	Document No	ICA10001										
Date	22/07/2011																	
Page	1																	
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<p>Don Juan Triumphant Ltd 4298 Bilton Road Sandton 2197</p>	<p>Deliver to</p> <p style="text-align: center;">N/A</p>																	
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;">Account</th> <th style="width: 25%;">Your Reference</th> <th style="width: 15%;">Tax Exempt</th> <th style="width: 15%;">Tax Reference</th> <th style="width: 30%;">Sales Code</th> </tr> </thead> <tbody> <tr> <td>DJT</td> <td>F444</td> <td style="text-align: center;">N</td> <td>455465655</td> <td>JoBu Inclusive</td> </tr> </tbody> </table>			Account	Your Reference	Tax Exempt	Tax Reference	Sales Code	DJT	F444	N	455465655	JoBu Inclusive						
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Tax	R 75 020.40																	
<b>Total</b>	<b>R 610 880.40</b>																	

**Cheque stubs**

Date 04/01/2011  
Leading Seating Ltd  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
**R** 737 926.56  
**0002**

Date 14/01/2011  
Phantom Sofas Ltd  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
**R** 207 071.88  
**0003**

Date 14/01/2011  
Firmin and André CC  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
**R** 156 152.64  
**0004**

Date 22/02/2011  
Diva Comfort CC  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
**R** 418 152.00  
**0005**

Date 30/03/2011  
Diva Comfort CC  
 \_\_\_\_\_  
 \_\_\_\_\_  
CC/301  
**R** 23 073.60  
**0006**

Date 14/06/2011  
Diva Comfort CC  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
**R** 603 812.40  
**0007**

**Standard Bank** 031-110

CAPE TOWN **NOT TRANSFERABLE** Date YYYY - MM - DD

Pay Diva Comfort CC or Bearer

the sum of Eight Thousand Eight Hundred Rand Only

**R** 8 000.00

POPULAIRE'S FURNISHINGS (PTY) LTD [YOUR STUDENT NUMBER]

CANCELLED

⑈0008 1:051001: 487529851⑈ 02

Date 15/07/2011  
Telkom  
Annual utility  
 \_\_\_\_\_  
 \_\_\_\_\_  
**R** 22 800.00  
**0009**

Date 20/07/2011  
C N A  
Stationery  
 \_\_\_\_\_  
 \_\_\_\_\_  
**R** 1 026.00  
**0010**

Date 09/08/2011  
Garage  
Fuel  
 \_\_\_\_\_  
 \_\_\_\_\_  
**R** 1 500.00  
**0011**

Date	12/08/2011
Leading Seating Ltd	
QTE0083084	
R	555 020.40
<b>0012</b>	

Date	28/09/2011
Eskom	
Electricity	
R	28 500.00
<b>0013</b>	

Date	29/09/2011
Firmin and André CC	
R	201 295.50
<b>0014</b>	

Date	03/10/2011
Makro	
Refreshments	
R	1 425.00
<b>0015</b>	

Date	07/12/2011
Joseph Buquet	
Provisional commission	
R	9 000.00
<b>0016</b>	

Date	07/12/2011
Meg Giry	
Provisional commission	
R	8 000.00
<b>0017</b>	

Date	17/12/2011
Pam Golding Properties	
Annual rental	
R	175 000.00
<b>0018</b>	

Date	24/12/2011
City of Cape Town	
Water and Rates	
R	4 161.00
<b>0019</b>	

Date	27/12/2011
SARS	
PAYE, SDL, UIF	
R	58 559.50
<b>0020</b>	

# Deposit Slips

<b>Standard Bank</b>		<b>Deposit slip</b>		<b>Cheques deposited</b>		<b>Date</b>	
<small>Terms and conditions on reverse</small>		Populaire's Furnishings		1	Don Juan Triumphant Ltd	458 473	80
<b>Deposit to</b> _____				2	Lefevre Designs Ltd	2 736	00
				3			
<b>Account number</b>				4			
4   8   7   5   2   9   8   5				5			
<b>Telephone no.</b> incl. dialling code		<b>Teller's date stamp</b>		6			
(021) 465 9237				7			
<b>Signature</b>				8			
<i>Christine Daaé</i>				9			
<small>Depositor's name or reference. These details will appear on the accountholder's/beneficiary's statement</small>				10			
C   H   R   I   S   T   I   N   E   D   A   A   É				11			
				12			
				13			
				14			
				<b>Total cheques</b>		461 209	80
						<b>Total</b>	
						R 461 209.80	

<b>Standard Bank</b>		<b>Deposit slip</b>		<b>Cheques deposited</b>		<b>Date</b>	
<small>Terms and conditions on reverse</small>		Populaire's Furnishings		1	Don Juan Triumphant Ltd	4 400	40
<b>Deposit to</b> _____				2	Joseph Buquet	86 686	74
				3			
<b>Account number</b>				4			
4   8   7   5   2   9   8   5				5			
<b>Telephone no.</b> incl. dialling code		<b>Teller's date stamp</b>		6			
(021) 465 9237				7			
<b>Signature</b>				8			
<i>Raoul de Chagny</i>				9			
<small>Depositor's name or reference. These details will appear on the accountholder's/beneficiary's statement</small>				10			
R   A   O   U   L   D   E   C   H   A   G   N   Y				11			
				12			
				13			
				14			
				<b>Total cheques</b>		91 086	114
						<b>Total</b>	
						R 91 087.14	

<b>Standard Bank</b>		<b>Deposit slip</b>		<b>Cheques deposited</b>		<b>Date</b>	
Terms and conditions on reverse		Populaire's Furnishings		1	Webber Home Compositions CC	61 924	80
Deposit to _____		Populaire's Furnishings		2	Stilgoe Brothers CC	24 806	40
Account number		Teller's date stamp		3			
4   8   7   5   2   9   8   5				4			
Telephone no. incl. dialling code				5			
(021) 465 9237				6			
Signature				7			
<i>Christine Daaé</i>				8			
Depositor's name or reference. These details will appear on the accountholder's/beneficiary's statement				9			
C   H   R   I   S   T   I   N   E   D   A   A   É				10			
				11			
				12			
				13			
				14			
				<b>Total cheques</b>		86 730	120
						<b>Total</b>	
						R 86 731.20	
						Notes R 10	
						R 20	
						R 50	
						R 100	
						R 200	
						Coins	
						Total cash	

<b>Standard Bank</b>		<b>Deposit slip</b>		<b>Cheques deposited</b>		<b>Date</b>	
Terms and conditions on reverse		Populaire's Furnishings		1	Don Juan Triumphant Ltd	110 751	00
Deposit to _____		Populaire's Furnishings		2			
Account number		Teller's date stamp		3			
4   8   7   5   2   9   8   5				4			
Telephone no. incl. dialling code				5			
(021) 465 9237				6			
Signature				7			
<i>Raoul de Chagny</i>				8			
Depositor's name or reference. These details will appear on the accountholder's/beneficiary's statement				9			
R   A   O   U   L   D   E   C   H   A   G   N   Y				10			
				11			
				12			
				13			
				14			
				<b>Total cheques</b>		110 751	00
						<b>Total</b>	
						R 155 781.00	
						Notes R 10	
						R 20	
						R 50	
						R 100	
						R 200	
						Coins	
						Total cash	

<b>Standard Bank</b>		<b>Deposit slip</b>		<b>Cheques deposited</b>		<b>Date</b>	
Terms and conditions on reverse		Populaire's Furnishings		1	Stilgoe Brothers CC	176 848	20
Deposit to _____		Teller's date stamp		2			
Account number		Telephone no. incl. dialling code		3			
4   8   7   5   2   9   8   5		(021) 465 9237		4			
Signature		Depositor's name or reference. These details will appear on the accountholder's/beneficiary's statement		5			
Christine Daaé		C   H   R   I   S   T   I   N   E   D   A   A   É		6			
		Total cheques		7			
		176 848		8			
		20		9			
		Total		10			
		R 289 639.80		11			
				12			
				13			
				14			

Notes R 10	10	00
R 20	80	00
R 50	100	00
R 100	800	00
R 200	111 800	00
Coins	2	60

**Total cash** 112792 60

<b>Standard Bank</b>		<b>Deposit slip</b>		<b>Cheques deposited</b>		<b>Date</b>	
Terms and conditions on reverse		Populaire's Furnishings		1	Webber Home Compositions CC	31 395	60
Deposit to _____		Teller's date stamp		2			
Account number		Telephone no. incl. dialling code		3			
4   8   7   5   2   9   8   5		(021) 465 9237		4			
Signature		Depositor's name or reference. These details will appear on the accountholder's/beneficiary's statement		5			
Raoul de Chagny		R   A   O   U   L   D   E   C   H   A   G   N   Y		6			
		Total cheques		7			
		31 395		8			
		60		9			
		Total		10			
		R 31 395.60		11			
				12			
				13			
				14			

Notes R 10		
R 20		
R 50		
R 100		
R 200		
Coins		

**Total cash**

**Standard Bank**

Terms and conditions on reverse

**Deposit slip**

Deposit to \_\_\_\_\_

Populaire's Furnishings

Cheques deposited		
1	Webber Home Compositions CC	219 974 40
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		

Date (YYYY-MM-DD) 2011/12/30

Account number  
4 | 8 | 7 | 5 | 2 | 9 | 8 | 5 | | | | | | | | | | | | | |

Telephone no. incl. dialling code  
(021) 465 9237

Teller's date stamp

Signature  
*Christine Dami*

Depositor's name or reference. These details will appear on the account holder's/beneficiary's statement

C | H | R | I | S | T | I | N | E | D | A | M | I | | | | | | | | | | | | | |

Total cheques 219 974 40  
**Total**

Notes	R 10		
	R 20		
	R 50		
	R 100		
	R 200		
Coins			

Total cash

**R** 219 974.40

# Bank Statement

## Standard Bank

CAPE TOWN  
13 ADDERLEY STREET  
CAPE TOWN  
8000

31 December 2011

POPULAIRE'S FURNISHINGS (PTY) LTD  
PO BOX 5632  
CAPE TOWN  
8000

Statement No 2  
VAT Reg. No. 846935/86  
Page 1 of 2

Statement frequency ANNUAL  
Statement from 01 January 2011 to 31 December 2011

### BANK STATEMENT / TAX INVOICE

**BUSINESS CURRENT ACCOUNT** Account Number **48 752 985 1**

### Month-end Balance

Details	Service Fee	Debits	Credits	Date	Balance
BALANCE BROUGHT FORWARD				01 01	325,570.00
CHEQUE 0002	36.00	737,926.56-		18 01	-412,356.56
CHEQUE 0004	36.00	156,152.64-		19 01	-568,509.20
CHEQUE 0003	36.00	207,071.88-		24 01	-775,581.08
IB PAYMENT SALARIES	17.50	19,440.00-		28 01	-795,021.08
DEPOSIT			461,209.80	10 02	-333,811.28
IB PAYMENT SALARIES	17.50	19,440.00-		28 02	-353,251.28
CHEQUE 0005	36.00	418,152.00-		02 03	-771,403.28
DEPOSIT			91,087.14	07 03	-680,316.14
IB PAYMENT SALARIES	17.50	19,440.00-		28 03	-699,756.14
CHEQUE 0006	36.00	23,073.60-		10 04	-722,829.74
DEPOSIT			86,731.20	21 04	-636,098.54
IB PAYMENT SALARIES	17.50	19,440.00-		28 04	-655,538.54
IB PAYMENT SALARIES	17.50	19,440.00-		28 05	-674,978.54
IB PAYMENT FROM POINT OF NO RETURN CC			300 139.20	05 06	-374,839.34
IB PAYMENT SALARIES	17.50	19,440.00-		28 06	-394,279.34
IB PAYMENT LOAN REPAYM	17.50	18,000.00-		30 06	-412,279.34
SERVICE FEE	##	302.50-		30 06	-412,581.84
CHEQUE 0007	36.00	603,812.40-		23 06	-1016,394.24
CHEQUE 0009	36.00	22,800.00-		19 07	-1039,194.24
DEPOSIT			155,781.00	25 07	-883,413.24
CHEQUE 0010	20.51	1,026.00-		26 07	-884,439.24
IB PAYMENT SALARIES	17.50	19,440.00-		28 07	-903,879.24

## These fees are inclusive of VAT at 14.00%

# Standard Bank

CAPE TOWN  
13 ADDERLEY STREET  
CAPE TOWN  
8000

31 December 2011

POPULAIRE'S FURNISHINGS (PTY) LTD  
PO BOX 5632  
CAPE TOWN  
8000

Statement No 2  
VAT Reg. No. 846935/86  
Page 2 of 2

Statement frequency ANNUAL  
Statement from 01 January 2011 to 31 December 2011

## BANK STATEMENT / TAX INVOICE

**BUSINESS CURRENT ACCOUNT**

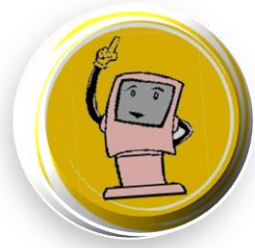
**Account Number**

**48 752 985 1**

### Month-end Balance

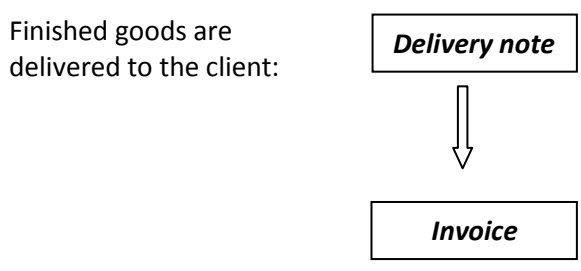
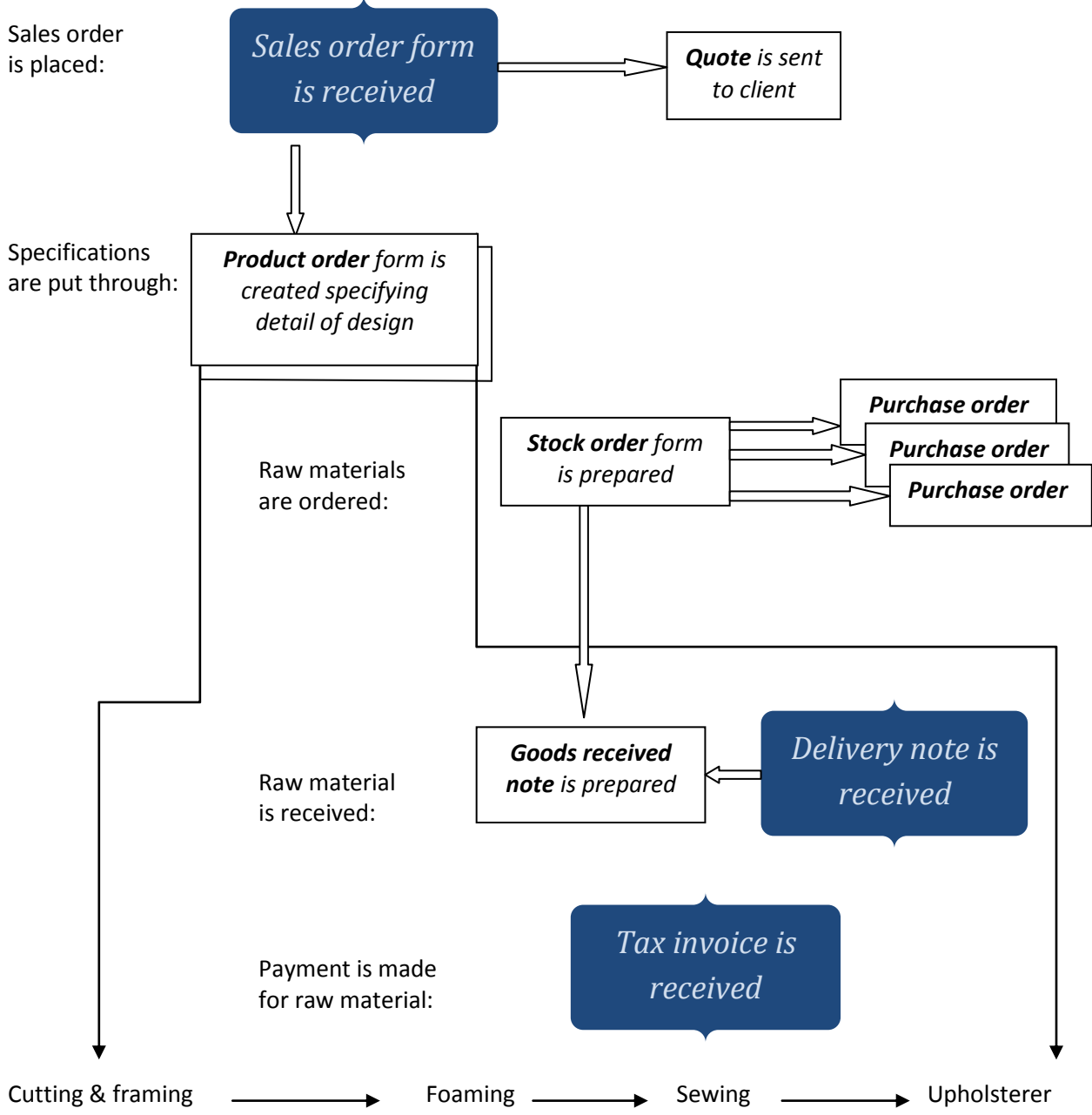
Details	Service Fee	Debits	Credits	Date	Balance
BALANCE BROUGHT FORWARD					-903,879.24
CHEQUE 0011	27.90	1,500.00-		12 08	-905,379.24
CHEQUE 0012	36.00	555,020.40-		28 08	-1460,399.64
IB PAYMENT SALARIES	17.50	19,440.00-		28 08	-1479,839.64
DEPOSIT			289,639.80	29 08	-1190,199.84
IB PAYMENT SALARIES	17.50	19,440.00-		28 09	-1209,639.84
CHEQUE 0014	36.00	201,295.50-		04 10	-1410,935.34
CHEQUE 0013	36.00	28,500.00-		07 10	-1439,435.34
CHEQUE 0015	26.73	1,425.00-		12 10	-1440,860.34
IB PAYMENT FROM POINT OF NO RETURN CC			239 913.00	15 10	-1200,947.34
IB PAYMENT SALARIES	17.50	19,440.00-		28 10	-1220,387.34
DEPOSIT			31 395.60	17 11	-1188,991.74
IB PAYMENT SALARIES	17.50	19,440.00-		28 11	-1208,431.74
CHEQUE 0017	36.00	8,000.00-		10 12	-1216,431.74
CHEQUE 0016	36.00	9,000.00-		10 12	-1225,431.74
CHEQUE 0018	36.00	175,000.00-		22 12	-1400,431.74
IB PAYMENT SALARIES	17.50	19,440.00-		28 12	-1419,871.74
IB PAYMENT LOAN REPAYI	17.50	18,000.00-		31 12	-1437,871.74
SERVICE FEE	##	485.64-		31 12	-1438,357.38

## These fees are inclusive of VAT at 14.00%



# Appendix D: Quick references

## Flow of Documents for Bellacraft Design



# Typical Medium / Large Business Organisation

Objectives  
Internal Controls

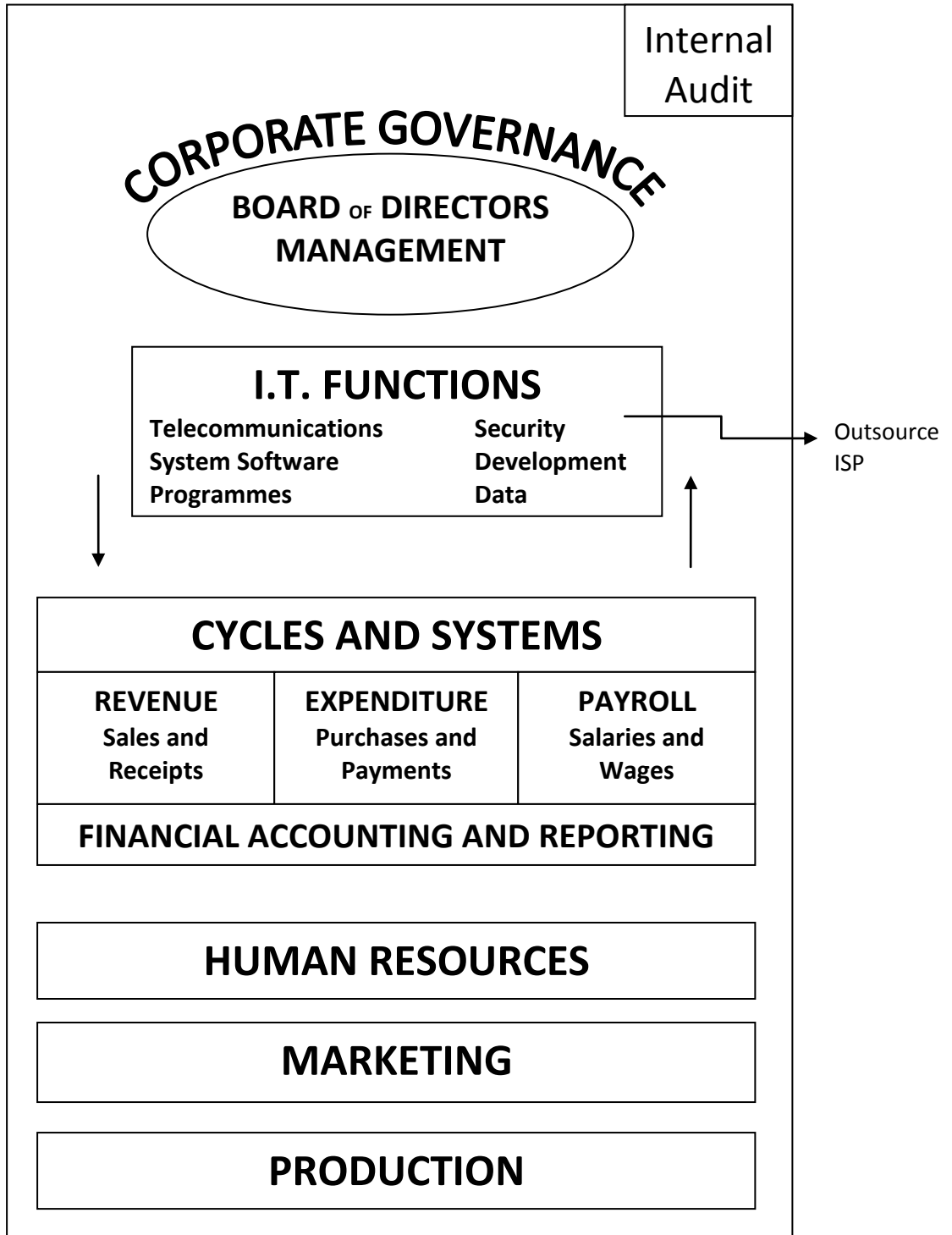


Diagram 5.1 - Typical Medium / Large Business Organisation

# S

## Segregation of duties

### ISOLATION OF RESPONSIBILITY

- INITIATION
- EXECUTION
- RECORDING
- CUSTODY

# P(C)

## Physical Custody

- PHYSICAL SECURITY
- RESTRICT ACCESS
  - INTERNAL
  - EXTERNAL

# A

## Authorisation

- ACKNOWLEDGE PHYSICAL TRANSFER
- IDENTIFY ACCOUNTABILITY

IN TERMS OF POLICIES

# R

## Information Processing

### R

- **RECONCILIATION**
  - UNDERLYING ASSETS
    - CASH
    - STOCK
  - USE OF CONTROL ACCOUNTS/ SUB LEDGERS
  - RAND VALUE
    - # RECORDS
    - #TRANSACTIONS
  - NON-FINANCIAL
  - INPUT – OUTPUT
  - RUN-TO-RUN
  - MASTER FILE UPDATES

### U

#### ▪ **UNUSED STATIONERY**

- NEGOTIABLE
  - REGISTER ↙
  - ↓
  - ↘ CANCELLED
- SAFEGUARDED
- MINIMISE INFO
- CARBO
- PRE-NUMBER
- IDENTIFIABLE/NOT EASILY COPIED

### C

#### ▪ **CHECKING**

- HUMAN
- COMPUTER

### N

#### ▪ **SEQUENCING**

# P/(M)

## Management

- POLICIES
- SUPERVISE
- REVIEW
  - LOGS
  - EXCEPTIONS
  - OVERALL PERFORMANCE
  - FILE CONTENTS
  - CUSTOMER COMPLAINTS
  - AUDIT TRAIL
  - RECONCILIATIONS
- IDENTIFY, CORRECT, & RESUBMIT ERRORS

<p style="text-align: center;"><b>VALID</b></p>	<ul style="list-style-type: none"> <li>❖ SOD <ul style="list-style-type: none"> <li>User <ul style="list-style-type: none"> <li>Who</li> <li>Verify</li> </ul> </li> <li>Use <ul style="list-style-type: none"> <li>Menu</li> <li>Functionality</li> </ul> </li> </ul> </li> <li>❖ <span style="border: 1px solid black; padding: 2px;">Authorisation</span></li> <li>❖ Control Over-rides (a la Pick 'n Pay)</li> <li>❖ Identify duplicates</li> </ul>
<p style="text-align: center;"><b>ACCURATE</b></p>	<ul style="list-style-type: none"> <li>• Reduce likelihood of error <ul style="list-style-type: none"> <li>– Train (remember control environment people in specific duties are competent)</li> <li>– Help function / manual</li> <li>– User friendly screen / documents</li> <li>– Prompts / Drop down lists / minimise options</li> </ul> </li> <li>• Minimise input <ul style="list-style-type: none"> <li>– Automate / use of standing data</li> <li>– Preformatted keys</li> <li>– Touch screens</li> <li>– Scanners</li> </ul> </li> <li>• <span style="border: 1px solid black; padding: 2px;">Check input</span> <ul style="list-style-type: none"> <li>– Manual one-to-one check</li> <li>– Computer edit and validation checks</li> </ul> </li> </ul>
<p style="text-align: center;"><b>COMPLETE</b></p>	<ul style="list-style-type: none"> <li>▪ Automatically numbered</li> <li>▪ <span style="border: 1px solid black; padding: 2px;">Numeric sequence check</span></li> <li>▪ Field presence check</li> <li>▪ Identify errors, correct and resubmit</li> </ul>



# Appendix B: Additional Reading

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## Contents:

1. ISA 315 Appendix I
2. Demystifying Cobit, *Accountancy SA*, April 2008
3. The Growing need to Expanded Corporate Reporting, *Accountancy SA*, June 2009
4. Shedding more light on Corporate Governance, *Accountancy SA*, September 2009
5. Sustainability, *Accounting SA*, December 2009
6. Measuring Corporate Governance, *Accountancy SA*, October 2010
7. King III Integrated Report, *Accountancy SA*, November 2010
8. Sustainability Into, *Accountancy SA*, December 2010/January 2011

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Additional handouts may be distributed in the second semester.

**ISA 315**  
**Identifying and Assessing the Risks of Material Misstatement through**  
**Understanding the Entity and Its Environment**  
**(April 2009)**

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**Appendix 1**

(Ref: Paras. 4(c), 14-24, A69-A104)

**Internal Control Components**

1. This appendix further explains the components of internal control, as set out in paragraphs 4(c), 14-24 and A69-A104, as they relate to a financial statement audit.

**Control Environment**

2. The control environment encompasses the following elements:
  - (a) *Communication and enforcement of integrity and ethical values.* The effectiveness of controls cannot rise above the integrity and ethical values of the people who create, administer, and monitor them. Integrity and ethical behavior are the product of the entity's ethical and behavioral standards, how they are communicated, and how they are reinforced in practice. The enforcement of integrity and ethical values includes, for example, management actions to eliminate or mitigate incentives or temptations that might prompt personnel to engage in dishonest, illegal, or unethical acts. The communication of entity policies on integrity and ethical values may include the communication of behavioral standards to personnel through policy statements and codes of conduct and by example.
  - (b) *Commitment to competence.* Competence is the knowledge and skills necessary to accomplish tasks that define the individual's job.
  - (c) *Participation by those charged with governance.* An entity's control consciousness is influenced significantly by those charged with governance. The importance of the responsibilities of those charged with governance is recognized in codes of practice and other laws and regulations or guidance produced for the benefit of those charged with governance. Other responsibilities of those charged with governance include oversight of the design and effective operation of whistle blower procedures and the process for reviewing the effectiveness of the entity's internal control.
  - (d) *Management's philosophy and operating style.* Management's philosophy and operating style encompass a broad range of characteristics. For example, management's attitudes and actions toward financial reporting may manifest themselves through conservative or aggressive selection from available alternative accounting principles, or conscientiousness and conservatism with which accounting estimates are developed.
  - (e) *Organizational structure.* Establishing a relevant organizational structure includes considering key areas of authority and responsibility and appropriate lines of reporting. The appropriateness of an entity's organizational structure depends, in part, on its size and the nature of its activities.
  - (f) *Assignment of authority and responsibility.* The assignment of authority and responsibility may include policies relating to appropriate business practices, knowledge and experience of key personnel, and resources provided for carrying out duties. In addition, it may include policies and communications directed at ensuring that all personnel understand the entity's objectives, know how their individual actions interrelate and contribute to those objectives, and recognize how and for what they will be held accountable.

- (g) *Human resource policies and practices.* Human resource policies and practices often demonstrate important matters in relation to the control consciousness of an entity. For example, standards for recruiting the most qualified individuals – with emphasis on educational background, prior work experience, past accomplishments, and evidence of integrity and ethical behavior – demonstrate an entity’s commitment to competent and trustworthy people. Training policies that communicate prospective roles and responsibilities and include practices such as training schools and seminars illustrate expected levels of performance and behavior. Promotions driven by periodic performance appraisals demonstrate the entity’s commitment to the advancement of qualified personnel to higher levels of responsibility.

### **Entity’s Risk Assessment Process**

3. For financial reporting purposes, the entity’s risk assessment process includes how management identifies business risks relevant to the preparation of financial statements in accordance with the entity’s applicable financial reporting framework, estimates their significance, assesses the likelihood of their occurrence, and decides upon actions to respond to and manage them and the results thereof. For example, the entity’s risk assessment process may address how the entity considers the possibility of unrecorded transactions or identifies and analyzes significant estimates recorded in the financial statements.
4. Risks relevant to reliable financial reporting include external and internal events, transactions or circumstances that may occur and adversely affect an entity’s ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Management may initiate plans, programs, or actions to address specific risks or it may decide to accept a risk because of cost or other considerations. Risks can arise or change due to circumstances such as the following:
- *Changes in operating environment.* Changes in the regulatory or operating environment can result in changes in competitive pressures and significantly different risks.
  - *New personnel.* New personnel may have a different focus on or understanding of internal control.
  - *New or revamped information systems.* Significant and rapid changes in information systems can change the risk relating to internal control.
  - *Rapid growth.* Significant and rapid expansion of operations can strain controls and increase the risk of a breakdown in controls.
  - *New technology.* Incorporating new technologies into production processes or information systems may change the risk associated with internal control.
  - *New business models, products, or activities.* Entering into business areas or transactions with which an entity has little experience may introduce new risks associated with internal control.
  - *Corporate restructurings.* Restructurings may be accompanied by staff reductions and changes in supervision and segregation of duties that may change the risk associated with internal control.
  - *Expanded foreign operations.* The expansion or acquisition of foreign operations carries new and often unique risks that may affect internal control, for example, additional or changed risks from foreign currency transactions.
  - *New accounting pronouncements.* Adoption of new accounting principles or changing accounting principles may affect risks in preparing financial statements.

## **Information System, Including the Related Business Processes, Relevant to Financial Reporting, and Communication**

5. An information system consists of infrastructure (physical and hardware components), software, people, procedures, and data. Many information systems make extensive use of information technology (IT).
6. The information system relevant to financial reporting objectives, which includes the financial reporting system, encompasses methods and records that:
  - Identify and record all valid transactions.
  - Describe on a timely basis the transactions in sufficient detail to permit proper classification of transactions for financial reporting.
  - Measure the value of transactions in a manner that permits recording their proper monetary value in the financial statements.
  - Determine the time period in which transactions occurred to permit recording of transactions in the proper accounting period.
  - Present properly the transactions and related disclosures in the financial statements.
7. The quality of system-generated information affects management's ability to make appropriate decisions in managing and controlling the entity's activities and to prepare reliable financial reports.
8. Communication, which involves providing an understanding of individual roles and responsibilities pertaining to internal control over financial reporting, may take such forms as policy manuals, accounting and financial reporting manuals, and memoranda. Communication also can be made electronically, orally, and through the actions of management.

## **Control Activities**

9. Generally, control activities that may be relevant to an audit may be categorized as policies and procedures that pertain to the following:
  - *Performance reviews.* These control activities include reviews and analyses of actual performance versus budgets, forecasts, and prior period performance; relating different sets of data – operating or financial – to one another, together with analyses of the relationships and investigative and corrective actions; comparing internal data with external sources of information; and review of functional or activity performance.
  - *Information processing.* The two broad groupings of information systems control activities are application controls, which apply to the processing of individual applications, and general IT-controls, which are policies and procedures that relate to many applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. Examples of application controls include checking the arithmetical accuracy of records, maintaining and reviewing accounts and trial balances, automated controls such as edit checks of input data and numerical sequence checks, and manual follow-up of exception reports. Examples of general IT-controls are program change controls, controls that restrict access to programs or data, controls over the implementation of new releases of packaged software applications, and controls over system software that restrict access to or monitor the use of system utilities that could change financial data or records without leaving an audit trail.
  - *Physical controls.* Controls that encompass:

- The physical security of assets, including adequate safeguards such as secured facilities over access to assets and records.
- The authorization for access to computer programs and data files.
- The periodic counting and comparison with amounts shown on control records (for example, comparing the results of cash, security and inventory counts with accounting records).

The extent to which physical controls intended to prevent theft of assets are relevant to the reliability of financial statement preparation, and therefore the audit, depends on circumstances such as when assets are highly susceptible to misappropriation.

- *Segregation of duties.* Assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets. Segregation of duties is intended to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of the person's duties.

10. Certain control activities may depend on the existence of appropriate higher level policies established by management or those charged with governance. For example, authorization controls may be delegated under established guidelines, such as investment criteria set by those charged with governance; alternatively, non-routine transactions such as major acquisitions or divestments may require specific high level approval, including in some cases that of shareholders.

### **Monitoring of Controls**

11. An important management responsibility is to establish and maintain internal control on an ongoing basis. Management's monitoring of controls includes considering whether they are operating as intended and that they are modified as appropriate for changes in conditions. Monitoring of controls may include activities such as management's review of whether bank reconciliations are being prepared on a timely basis, internal auditors' evaluation of sales personnel's compliance with the entity's policies on terms of sales contracts, and a legal department's oversight of compliance with the entity's ethical or business practice policies. Monitoring is done also to ensure that controls continue to operate effectively over time. For example, if the timeliness and accuracy of bank reconciliations are not monitored, personnel are likely to stop preparing them.
12. Internal auditors or personnel performing similar functions may contribute to the monitoring of an entity's controls through separate evaluations. Ordinarily, they regularly provide information about the functioning of internal control, focusing considerable attention on evaluating the effectiveness of internal control, and communicate information about strengths and deficiencies in internal control and recommendations for improving internal control.
13. Monitoring activities may include using information from communications from external parties that may indicate problems or highlight areas in need of improvement. Customers implicitly corroborate billing data by paying their invoices or complaining about their charges. In addition, regulators may communicate with the entity concerning matters that affect the functioning of internal control, for example, communications concerning examinations by bank regulatory agencies. Also, management may consider communications relating to internal control from external auditors in performing monitoring activities.

# DEMYSTIFYING COBIT

*Internal control is a process effected by an entity's board of directors, management and other personnel and is designed to provide reasonable assurance that the system achieves its objectives of efficient and effective operations, reliable financial reporting and compliance with legislation.*

After identifying the business objectives, the existing controls for managing the risks should be identified and their adequacy evaluated. Evaluating the adequacy will go hand in hand with balancing the investment in control systems and the risks addressed. Information Technology (IT) security and systems of control assist with managing risk to an acceptable level, leaving (net) residual risk. Evaluating and deciding on an acceptable level of residual risk is difficult without a control framework of generally accepted practices as a benchmark. In South Africa, the King Report on Corporate Governance is best known. One such framework at an IT-level is Control Objectives for Information and related Technology (COBIT).



The purpose of this article is to provide a high-level introduction to this topic. It covers the basics of COBIT, its benefits and some key guidelines. The intention of the article is to be an introduction to this topic, consequently the benefits, problems and considerations are not exhaustive. The latest version of COBIT (v4.1) as well as executive summaries, which provide more detail, are available for download from the Information Systems Audit and Control Association at: [www.ISACA.org](http://www.ISACA.org).

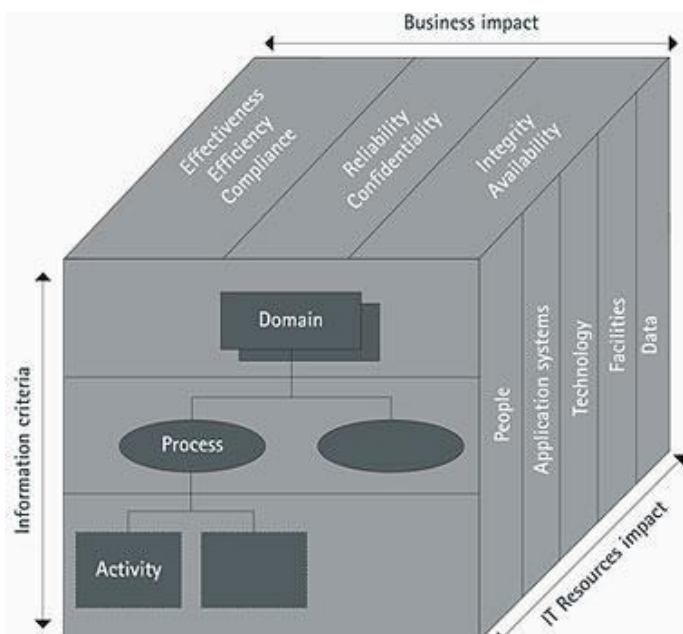
## What is COBIT?

COBIT is used as a set of generally accepted best practices framework to assist in developing appropriate IT governance and controls, and assurance in a company that links IT to business requirements and related resources. It provides tools in the form of high-level objectives, to assess and measure the performance of IT processes. Its purpose is to create generally accepted IT control objectives for day-to-day use. Consequently it provides an adaptive benchmark, which sets out the objectives that are to be achieved by each process. It attempts to bridge the gap between business risk, control needs and technical issues. It aids management in defining IT strategies and architecture, in acquiring the necessary skills, software and hardware to execute the strategy, ensuring continuous service and evaluating the performance of the IT system (COBIT 2007).

## Basics of COBIT

COBIT consists of three main parts: (i) control framework, (ii) management guidelines and (iii) implementation toolset. This article focuses on the framework and neither discusses the management guidelines nor the implementation toolkit. It should be noted that COBIT can be interpreted differently, and explanations and various other interpretations are available online. This is but one interpretation. The conceptual framework can be approached from three dimensions, as shown in figure 1.

**Figure 1: COBIT conceptual Framework**



COBIT covers a broad spectrum of areas in IT governance. This includes the following four domains:

- **Plan and organise:** It highlights the organisational and infrastructural form.
- **Acquire and implement:** It covers identifying IT requirements, acquiring and implementing IT within the company's current business processes. It also addresses the maintenance plan.
- **Deliver and support:** It focuses on the delivery aspects of the IT, also including the support processes including security issues and training.
- **Monitor and evaluate:** It deals with a company's strategy in assessing the needs of the company, meets the objectives of the company and compliance with the regulatory requirements.

Control is approached by looking at the information necessary to support the business objectives. Information is then the result of the combined application of IT-related resources that need to be managed by IT processes. Each domain summarises several processes, linking each process to a control objective, which can be used to design an appropriate control, activity or task. These can also be used to evaluate the impact on the business and IT resources. Each process is evaluated, the risks identified are evaluated and its impact rated, either as (H)igh, (M)edium or (L)ow, and considered relative to the information criteria as shown in figure 2. This assists to identify the important risk areas. The idea being that, if these processes are properly managed, IT will be governed effectively.

**Figure 2: Extract of an evaluation worksheet**

Domain	Process	Business impact					Resource impact					Status				
		Effectiveness	Efficiency	Confidentiality	Integrity	Availability	Compliance	Reliability	People	Applications	Technology	Facilities	Data	Critical	Level of Development	Documentation
Planning & organisation	PO1 Define a strategic plan	H	H			M			H	H	H	H	M	H	F	
	PO2 Define the information architecture	H	H		H	H			H			H		H	R	O
	PO11 Manage quality	H	H		H	H	H	H	H	H	H	H	H	H	R	O

Key	
H	High
M	Medium
L	Low
F	Fully developed
U	Under developed
R	Requires attention
O	Outstanding

### When is COBIT appropriate?

Although smaller versions of COBIT can be implemented, COBIT is usually implemented if there is a sufficiently "large" IT infrastructure, with standard or automated IT processes. It is desirable to implement COBIT if there is a need for IT governance and a framework for a quality management system and an alignment of IT with business goals. The need may also arise from external parties, where for example a structured audit approach is to be defined by auditors, or compliance with external regulatory requirements is of concern (including legislative for example Basel II or Sarbanes-Oxley).

Another consideration in deciding if COBIT is appropriate for an organisation is the cost of implementation (in terms of time and money) compared to the expected benefits to be derived.

### Why is COBIT better than other frameworks?

COBIT provides insight into managing the system, its risk and its controls effectively. It serves as a standard for complete assessment and a means of consistent reporting. Compliance with COBIT results in a fulfilment of the Committee of Supporting Organisations (COSO) requirements for the IT control environment, resulting in a better alignment, based on a business focus. This is also beneficial when viewed in the light of the harmonisation in accounting (IFRS), reporting (XBRL) and other standards.

### Advantages

- Broad coverage of the majority of IT processes
- Supports COSO requirements
- Mapping projects are currently being performed to compare COBIT to other frameworks that provide the technical guidance required

## Disadvantages

- Does not provide technical guidance
- Could be cost intensive
- Paper intensive and could require significant resources to implement

COBIT addresses a broad spectrum of duties in IT governance, including those covered by other standards. Although technical details have not been included, the necessary tasks for complying with the control objectives are self-explanatory. It is classified as relatively high-level, aiming to be generically complete but not specific. This makes it adaptable to any organisation. The user must decide on the applicability. However, all areas are not equally covered, for example, COBIT does not provide strong security guidelines.

COBIT focuses on IT control and metrics, and is a comprehensive uniform IT process model that helps to determine areas of strategic importance. This allows for a better understanding of the risks, thus also allowing for the identification of opportunities. It helps to align IT processes and control with the business' objectives. This allows for a specific focus.

COBIT provides an adaptive benchmark, reflects the industry best practices and is a generally accepted control framework, which is accepted by IT auditors, risk managers and regulators (locally and abroad, for example Sarbanes-Oxley). It is supported by a vast community. Due to its wide acceptance, it is used as the benchmark, and most other frameworks (which provide the detail not provided by COBIT) are mapped against COBIT, making it a good starting point, ensuring that all IT aspects are considered. The IT Governance Institute in the United States issued a mapping document which maps various IT guidelines to COBIT and is available online at [www.ISACA.org](http://www.ISACA.org) (Author unknown 2006).

## Concerns about COBIT

Although COBIT is complex, it describes what needs to be done in broad generalities and does not describe how each of these control objects is to be accomplished. COBIT practices are more focused on controls than on execution. However, there are tools such as the Information Technology Infrastructure Library (ITIL) et cetera that provide detailed guidance. Modern packages (e.g. SAP and Microsoft) have their own framework, which could result in duplication. Because COBIT is general, it relies on the users to customise its application, in most cases the IT-gap could lead to a failure. COBIT is paper and resource (time, money et cetera) intensive. Due to the cost considerations, COBIT is mainly applicable to large enterprises, even though it is unlikely that the entire COBIT process will be implementable. Some control objectives are not applicable to all organisations. Specifically small organisations do not need to implement all aspects and could result in over expenditure. It could also lead to a loss of focus on the important areas.

## Conclusion

COBIT is an adaptive framework, which can be used as a generally accepted benchmark to evaluate a system. It has its benefits, but is not applicable to all organisations. Careful consideration must be given to all factors before implementation, and the factors can be interpreted differently. This article is but one interpretation.

## Reference:

1. Authors unknown. 2006. COBIT mapping: Overview of international IT guidance. 2nd edition, IT Governance Institute. Available at: [www.isaca.org](http://www.isaca.org) [Accessed 14 December 2007].
2. Boshoff, W. 2007. IT Governance: IT Governance frameworks and their Integration. Masters in Accounting (Computer Auditing) lecture slides. Stellenbosch University. September 2007.
3. COBIT Steering Committee (COBIT). 2007. COBIT 4.1. 4.1st edition. IT Governance Institute. Available at: [www.isaca.org](http://www.isaca.org) [Accessed 20 December 2007].
4. Lamprecht, C. 2004. Hacker risk in e-commerce systems with specific reference to the disclosure of confidential information. South African Journal of Information Management, Vol 6(4):Dec 2004.

*Riaan Rudman CA(SA), BBusSc (Hons), PGDA, MBusSc (Fin), is a lecturer in the Department of Accounting at the University of Stellenbosch.*

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<http://www.accountancysa.org.za/resources/ShowItemArticle.asp?ArticleId=1398&Issue=979>

## THE GROWING NEED FOR EXPANDED CORPORATE REPORTING

*There is no doubt that the world we knew before the global economic meltdown will not return. The causes of the meltdown will not disappear, and lurking behind them is another set of even more fundamental issues facing humanity.*

The often quoted Chinese curse - 'may you live in interesting times' has never been more relevant than it is today.

Humankind has enormous environmental and social challenges facing it. We can no longer ignore them. The impact of the sustainability threats is affecting business more and more each day. Not only do businesses have to adapt their strategies and their way of doing business, they also have to adapt their way of reporting. No longer is it sufficient to report only on their financial performance to shareholders and potential investors. Today companies have a range of stakeholders that have vital interests in the activities of the organisation, and they expect companies to provide a range of information about the company. Indeed, the notion of a company being a corporate citizen has become a reality in recent years, and that has highlighted responsibilities and obligations for companies. Companies operate in communities, they consume scarce resources and they produce waste. All of which impact society and, therefore, society needs information about how companies are dealing with the related responsibilities and obligations.

There are various names given to such reporting, but the two most commonly used are 'Corporate Social Responsibility' (CSR) reporting and 'sustainability reporting', which are broadly the same thing. In the past, CSR often referred to the philanthropic activities of a company and some people still see it as that, but in reality CSR reporting has become a much broader concept and an essential element of reporting, and it will no doubt become a legal requirement in the not too distant future.

There are a number of codes and reporting frameworks around, but most companies that do prepare sustainability reports use the Global Reporting Initiative (GRI) Guidelines, which may be downloaded from the GRI website at <http://www.globalreporting.org/Home>. A KPMG Survey<sup>[1]</sup> published in 2008 shows that 77% of reporting companies use the GRI Guidelines.

The GRI sees sustainability reporting as the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organisational performance towards the goal of sustainable development.

Globally, sustainability reporting is increasing rapidly according to the KPMG Survey. It noted that over 80% of the world's largest 250 companies (G250) now produce sustainability reports. The Survey, which covered 22 countries, revealed that a rising number of companies are producing sustainability reports. On average, 45% of the top 100 companies in the surveyed countries produce sustainability reports; Japan and the United Kingdom lead the table at 93% and 91% respectively; South Africa is some way behind at 45%, but it is one of the leaders in integrating the sustainability report into the annual report.

### **The recently published draft King Code says:**

*'By issuing integrated sustainability reports, a company increases the trust and confidence of its stakeholders and the legitimacy of its operations. It can increase the company's business opportunities and improve its risk management. By issuing an integrated sustainability report, internally a company evaluates its ethics, fundamental values, and governance and externally, improves the trust and confidence which stakeholders have in it.'*

Whilst the GRI Guidelines are fast becoming the standard for sustainability reporting, there are many other voluntary guides and even legal requirements that are relevant to sustainability reporting. Some industries, such as the mining and chemical industries, have developed codes and guides. The Carbon Disclosure Project has developed standard disclosures relating to climate change information and particularly greenhouse gas emissions. In South Africa there is the King II Report and recently a draft King III Code was released. In addition, there are disclosure requirements in terms of the Broad-based Black Economic Empowerment legislation.

The GRI guidelines suggest that a sustainability report should provide a balanced and reasonable representation of the sustainability performance of a reporting organisation - including both positive and negative issues. However, there is always a temptation for companies to tell only the good news so that the organisation can be seen in the best light. Indeed, some companies use the sustainability report as a public relations document. This is known as 'green washing' and it can backfire horribly. In the US there are magazines and websites that constantly look for cases of green washing so that they can be exposed.

Sustainability reporting is not something to be taken lightly. It covers many areas on which companies have not traditionally focused and on which they certainly have not reported. In addition, many companies do not have adequate information systems to generate the necessary information, so they end up making only vague statements, which are not helpful. A fundamental aspect of the exercise is to engage with a wide range of stakeholders to ascertain what the stakeholders see as important. Their views will not necessarily align with the views of management, since some of the areas highlighted by external stakeholders may be sensitive to the company. However, companies that deal with sensitive issues

are likely to improve credibility ratings over those that ignore them or gloss over them.

*The KPMG Survey suggests, 'Understanding the way a company impacts the economic, environmental and social circumstances of its stakeholders, and vice versa, is at the heart of corporate responsibility. In order to develop a proactive, strategic approach, and a workable management and reporting system that will help change circumstances for the better for all parties, stakeholders should be part of the process. Identifying and prioritising stakeholders, and being transparent about which groups and individuals a company is engaging with, is a key part of building credibility and trust.'*

Producing sustainability reports requires a great deal of planning, and an infrastructure that can generate the necessary information. It is also essential that top management is intimately involved in the process. It becomes very apparent when reading sustainability reports if a company has not embedded sustainability into its strategy and operations. In those circumstances, the report can do more harm than good.

As with any published information the credibility of the information is enhanced if it has some form of supporting assurance. The GRI guidelines outline different assurance models ranging from self-assurance to assurance by certification bodies and assurance by accountancy firms. Such assurance, however, can be costly, since the areas covered are not necessarily part of a normal audit. The KPMG Survey shows an increasing number of companies moving to an enhanced assurance model. In 2008, 70% of the G250 used accountancy firms to provide assurance.

Given the growing importance of sustainability reporting in organisations, SAICA has decided to develop a sustainability reporting course, which has been certified by the GRI. The two-day course outlines the principles of sustainability reporting and teaches participants how to go about planning for and implementing the processes to develop a sustainability report.

Chartered Accountants have been slow to embrace sustainability. This is unfortunate as it offers many business opportunities. The big danger, however, is if we do not embrace it we will rapidly lose relevance, and other professionals will usurp much of our ground. One area, amongst many, where Chartered Accountants should become involved is sustainability reporting. That is why SAICA is offering this training course.

[1] International Survey of Corporate Social Responsibility - 2008.

*Graham Terry CA(SA), is the Head: Office of the Executive President, SAICA.*

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# SHEDDING MORE LIGHT ON CORPORATE GOVERNANCE

*The South African Corporate Governance landscape is largely defined by the King Report on Corporate Governance, with King 2 having made a great impact on the running of companies within South Africa, especially those listed on the JSE.*

The report has also substantially impacted the view international investors have of South Africa and the direction corporate law reform has taken. The world, including South Africa, has changed since 2002, when the 2nd King Report was released, resulting in the need for a third report to take into account a brand new South African Companies Act and changes in international governance trends.

King is not law and therefore there are no legal sanctions for non-compliance. This is contrary to the United States where the Sarbanes Oxley Act (SOX) is a statute, leaving companies with no option but to comply. It is submitted that the existence of such an Act, which American companies have laboriously begun to comply with, did not help prevent the credit crunch and the resulting financial crisis, an occurrence in support of the argument that good governance cannot be legislated. The King Commission has recognised the danger in adopting a one size fits all approach, and the burden presented by overregulation and the need for overcompliance. The message in the King report is simple, apply the principles or explain why you have not applied them. If you apply a practice other than a recommended one, detailing the reasons for making such a decision will serve the spirit and substance of King iii.

Previously directors were required, in terms of the common law, to act with due care, skill and diligence. The second King Report elaborated on the duties of directors, as recommendations of what would constitute good conduct, not law. Against the spirit of the King Report, the Companies Act 2008 due to take effect in July 2010 has, in section 76, prescribed the standards of conduct for directors. It would be interesting to observe how a court establishes whether or not S 76 has been complied with and by which directors serving on a board.

Corporate Governance has outgrown the board room and is permeating through every possible facet of our lives. At a breakfast hosted by SAICA in June this year, Mervyn King, Chairman of the King Committee on Corporate Governance in South Africa and Chairman of the United Nations Global Reporting Initiative (GRI), shed some light on the "new reality of corporate governance", highlighting the changes we are experiencing as follows:

- Capitalisation of companies has changed. The individual has replaced wealthy families of the world as the provider of capital, indirectly through pension funds. Throughout the world on the great stock exchanges, the major shareholder is in fact the pension fund.
- Corporate reporting has evolved to meet the expectations of an evolved stakeholder body. Today stakeholders expect companies to be and be seen to be good corporate citizens
- Boards need to take account of the legitimate expectations and interests of all the stakeholders linked to the company, which includes its shareholders. Potential investors look beyond the book value of a company to assess issues such as future earnings, brand, goodwill, reputation of management, reputation of the board, the quality of governance, the sustainability of the business, and to what extent the company has taken account of non-financial aspects that relate to the business. The questions to be answered are: has the company been able to report how it has impacted both positively and negatively on the community in which it is operating? Has the company provided its stakeholders with forward looking information, so that they can make a more informed assessment of the economic value of the company?
- Governance, strategy and sustainability are interconnected. In developing a long-term strategic plan of a company, the board of directors must consider sustainability issues pertinent to the business of the company. King iii has thus recommended integrated reporting and the need for the internal audit function to be risk centric as opposed to compliance centric. The internal audit function, headed by a Corporate Audit Executive must understand the long-term strategic plan of the company and the risks associated with that plan, in order to assess whether or not the controls of the business are adequate.
- In recognising that approximately ninety companies listed on the JSE have executive chairmen, King iii proposed that those companies appoint Lead Independent Directors so that, in the event of a conflict of interest arising on the part of the executive chairman, the Lead Independent Director can adopt the role of chairman or mediate conflict.
- IT Governance is a new introduction to the King Report and has become critical to the achievement and maintenance of good governance. IT Security is also significant in that most companies engage external service providers, creating a risk as confidential information then resides outside the portals of the company.
- The judicial system has not kept up with commerce. Directors must therefore ensure that when disputes arise they are resolved as expeditiously, efficiently and effectively as possible. To facilitate this process, an alternate dispute clause should be included in all major contracts.
- The King Commission has altered its view on the provision of share options to directors from one of recommending it, as long as it was approved by shareholders in meeting, to discouraging it as, in line with the stance taken by the EU and commonwealth countries, the granting of share options to non-executive directors appears to dilute their objectivity.
- Stakeholder relationships are also commented on in King iii.

The King Commission has described the philosophy of the report as one that revolves around leadership, sustainability and corporate citizenship, a philosophy that is synonymous with the direction the world is taking. It places the onus on leaders to define strategy, provide direction and establish the ethics and values that will influence and guide practices and behaviour with regard to sustainability performance.

King iii draws on the need for decision-makers to understand that the environment, people and business are intertwined and that they should impact the manner in which companies and directors act and organise themselves. In the report, "Sustainability" is defined as "the primary moral and economic imperative for the 21st Century and it is one of the most important sources of both opportunities and risks for businesses". Key to creating a transition to sustainability is the adoption of innovation, fairness and collaboration. Providing new ways of doing things, finding profitable responses to sustainability, promoting social justice, and encouraging collaboration are seen as prerequisites to large scale change.

SAICA has launched a book on sustainability issues entitled "Green", written by Graham Terry (Head: Office of the Executive President). The book supports the contention that corporate leaders must embrace sustainability to ensure their organisations' future profitability and long-term survival. The reality is, however, that most South African companies are yet to implement and report on measures taken to ensure sustainable practices. These companies need to jump on the bandwagon and initiate the change rather quickly as within the next decade they will find themselves having to contend with a myriad of requirements dealing with environmental accounting.

*Melanie Naidoo, BProc, LLB, diplomas in Corporate Law, Compliance and Corporate Governance, is Head of Legal and Governance, SAICA*

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# SPECIAL REPORT

## SUSTAINABILITY 2009

*Mervyn King speaks frankly about Sustainability Reporting*

### **Q: King III calls for an integrated sustainability report – what do you mean by “integrated”?**

It's not necessarily about one report. We all know about the triple bottom line (TBL). In King III we initially dropped the words TBL in favour of the triple context, which later became just plain context. It's to get the mindset at the top of the company thinking of the business in terms of three factors – its impact on society, the financial aspects, and its impact on the environment. It's to make an informed assessment on the economic value of a company as opposed to its book value – as stakeholders need this information.

Assume companies report according to the old Companies Act of 1973 - that's backward looking information. The major shareholders today are financial institutions and they have a duty to look at the sustainability of a business because they have a 20 to 30 year investment horizon for some of their members. Executives, however, look at a 3 to 5 year horizon.

The Coca-Cola company is an example I use often. Its long-term strategic plan involves the reuse, recycle and replenishment of water. Is it doing this because it's a good corporate citizen? Yes, because it protects its brand and reputation. But directors understand that water is a scarce commodity and they have to plan for the long-term supply of water to their bottling plants.

So this gives the context. It doesn't matter if there are two reports or three reports. They must show - and this is what King III is all about - the financial performance against the long-term sustainability of the business. This is integral to the business. The people at the top must change their mindset – see the company as an entity with, in some cases, millions of stakeholders attached to it. If directors view only the financial aspects of a company, in the 21st century it's too narrow a view.

Three years ago, a survey by the GRI (Global Reporting Initiative) of the top global companies asked what stakeholders want. It found they want a quality product or service and a continual quality product or service in ten years' time. The inference is that a company can create trust and confidence, but how does the board maintain that trust and confidence?

Another survey by the GRI this past year showed that 85% of readers said they formed a more positive view of a company where there was a sustainability report, as they could make a more informed assessment of a company.

So it's thinking about a company in terms of context. People at the top have to change their mindset; people in the middle and lower levels of a company have to understand the context. It is awareness of long-term strategic thinking and the critical nature of sustainability.

Sustainability is the primary moral and economic imperative of the 21st century. It is one of the most important sources of both opportunities and risks for businesses. Nature, society and business are interconnected in complex ways that should be understood by decision makers. Most importantly, current incremental changes towards sustainability are not sufficient – we need a fundamental shift in the way companies and directors act and organise themselves.

An excellent example of an integrated sustainability report is that of Proctor & Gamble. It shows how the board has applied its mind to ESG (environmental, social and governance) issues in addition to the financial facts, because the board appreciated their relevance to its business.

The term 'integrated sustainability reporting' is defined in King III as an holistic and integrated representation of the company's performance in terms of both its finance and its sustainability.

### **Q: What should directors be doing about sustainability?**

Realise that in carrying out their duties they have to make sure the sustainability of the business is considered in terms of the assets of planet earth - air, land and water.

In 1950, the world population was 2.5 billion. Today, it's 6.7 billion. By 2050, it'll be 9.2 billion. Most of those people will be living in cities. Food security will be a big problem. And wars will be fought over water.

### **Q: Where do you see the GRI in five years' time?**

The GRI will be the standard setter. Europe has already adopted the GRI's Reporting Framework. It would be an act of insanity for a single country to adopt its own standard after thousands and thousands of man hours have gone into the GRI. The GRI is a worldwide multi-stakeholder network. Business, civil society, labour, investors and accountants collaborate through consensus-seeking approaches to create and continually improve the Reporting Framework.

### **Q: Should the GRI and IFAC be working together in setting standards for sustainability reporting?**

They should be and they are talking to each other. It makes sense for there to be more co-operation between the two

global standard setters.

**Q: Are auditors the best people to offer assurance on sustainability reports?**

I believe so, as they have the necessary training in assurance. They can provide a trustworthy expression of opinion on an organisation's sustainability report.

**Q: Sustainability is still regarded as a "soft" area. What is it going to take before it's regarded more seriously?**

I disagree. It's not. In South Africa, sustainability considerations are rooted in the country's Constitution. That is the basic social contract into which South Africans have entered. The Constitution imposes responsibilities upon individuals and juristic persons for the realisation of the most fundamental of rights.

Some countries have already legislated sustainability reporting. In the UK, the company's impact on society and the environment has to be disclosed. There is legislation in Denmark, Germany and many other European countries. In South Africa, King III is a code. If the JSE adopts the principles of King III, it will spread the word.

There are four capital areas in a company – financial, environmental, social (the community) and human. From a strategic and planning point of view, boards have to get their minds around this. The world today is flat, borderless and degraded. If you don't get your strategic planning right in terms of these four capital areas, the business of the company will not be sustained. There is nothing "soft" about that. Nineteen years ago, Nike's market capitalisation dropped dramatically over the use of child labour; it took years for Nike to recover that loss. It had overlooked the human capital aspect in its supply chain.

**Q: What is the role of the individual? Can one person make a difference?**

Individuals have a huge role to play as providers of labour and capital, and they have the power to choose the products they buy from different companies. If your neighbour dumped toxic waste in your garden in the middle of the night, you would be horrified. We must expect the same from companies.

Each individual should be asking, what am I doing in my household and garden? Do I have plants that soak up water rather than indigenous plants? Do I have a solar geyser? Do I have a water tank?

**Q: Tell us about the new Investor Code that is being compiled?**

In September this year, we held our first meeting. Major financial institutions and regulators in South Africa are meeting with the aim of developing an investor code. The Code will be in line with the International Corporate Governance Network guidelines and those of the OECD, but taking account of the special circumstances in South Africa, e.g. transformation. It'll offer guidelines on the environmental, social and governance factors for investors to consider when making an informed assessment of a company. We're aiming to release the Investor Code by March next year.

The GRI Reporting Framework – of which the Sustainability Reporting Guidelines are the cornerstone – provides guidance for organisations to disclose their sustainability performance. It is applicable to organisations of any size, type, sector or geographic region, and has been used by thousands of organisations as the basis for their sustainability reporting.

*Leigh Roberts is Project Director in Standards Division at SAICA.*

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## Measuring corporate governance

In the wake of the global recession, attention on corporate governance is at an all time high. Many investors lost a lot of money, particularly on investments in companies that went bankrupt due to corporate scandals, mismanagement and fraud. Many are looking for a way to prevent this happening again, and are hoping to spot the mismanaged companies before they implode.

This has resulted in a global call for a system to be developed that can measure a company's system of corporate governance. In almost all of the systems developed so far, 'executive compensation' has been one of the topics used as a measure. Should governance measurement tools gain international recognition, they will play a large role in determining the structure and size of director's compensation.

Ms Blair defines corporate governance as "the whole set of legal, cultural, and institutional arrangements that determine what public corporations can do, who controls them, how that control is exercised, and how the risks and return from the activities they undertake are allocated". It appears that the concept of measuring a company's corporate governance is one that is immediately fraught with problems. How can a concept so subjective be objectively measured? It is suggested that this is because however detailed a study is done on the policies within a company, it would be impossible to measure the culture accurately within a company.

This problem was demonstrated with the spectacular collapse of Enron, a former large American energy company. In terms of policies surrounding good corporate governance, the company was faultless. As Mr J. Macey pointed out, "[t]he organisation and structure of the Enron board was also a paradigm of good corporate governance". As one commentator put it, "[T]he [Enron] board had all of the committees one would hope to see, including an executive committee, finance committee, audit and compliance committee, compensation committee, and nominating and corporate governance committee." Despite all of these measures, Enron still went bankrupt, and has become known as 'one of the largest frauds in business history.'

Despite these difficulties, many organisations and bodies have attempted to set up a method to measure how various entities are performing with regard to governance. On a global scale, the United Nations University drew up the World Governance Survey in 2002, in order to 'effectively assess and analyse governance issues.' The World Bank attempted to measure the governance of governments in 2007, using data and annual indicators from the previous ten years. More specifically focused on governance within the corporate setting, there have also been various projects undertaken to set standards by which to measure the governance of companies, commonly referred to as a governance rating or index. Gompers, Ishii, and Metrick's G-Index was published in 2003, and soon after that Bebchuk, Cohen, and Ferrell's E-Index was produced.

Another academic rating method, Brown and Caylor's Gov-Score Index, was released in 2006 as a more extensive governance index. In the UK, many researchers have looked at compliance with the Cadbury Code and performance – e.g. Gompers, et al, 2003, Klapper and Love 2002, Black, Jang and Kim 2005. In order to do this, they have needed to 'develop indices to measure a firm's governance arrangements'.

Commercial corporate ratings governance agencies also aim to provide a measure of a company's corporate governance policies and practices. GovernanceMetrics International (GMI), created in 2000, claims to be the first such company. The organisation produced a questionnaire with hundreds of metrics which, once answered, gave a score between one and ten for that company. Of the six research categories analysed by GMI, one of these is executive compensation.

RiskMetrics Group Inc. is an organisation that offered a similar product, named for short the Governance Risk Indicators or 'GRId'. Companies were scored against best practices in four areas, one of them being remuneration/compensation. Companies were then rated as either low, medium or high concern in each area, depending on their ratings. Indicators that decided ratings with regard to compensation included the following:

- Executive directors' ownership of shares.
- Disclosure regarding the minimum vesting periods of executive shares.
- Policy towards repricing of share options.
- Change in control agreements.

There are many benefits to such a system. Instead of a rule based system whereby companies are forced to comply with a list of regulations, companies are motivated to improve their ratings as they are linked to their business' opportunities. The advantages of a well-established governance rating agency are easy to predict – companies would work hard to comply with the survey, and would seek to improve their corporate governance in order to obtain a favourable rating. If one thinks of the influence of credit rating agencies (such as Standard and Poor's, Moody's or Fitch Ratings), and the effect that their opinions have on both companies and investors, it is possible to imagine the effects that a governance rating agency with the same influence would also have on entities.

However, there are also disadvantages to the concept. As already discussed, it is difficult objectively and comparatively to measure a culture. Another disadvantage of such a concept is that implementing such a system is difficult, time consuming and costly. For an organisation to implement such a system, the cost of running the organisation would need to be passed on to the companies being rated. In addition to these costs, the costs within a company of complying with the regulations would also be quite substantial.

In addition, the measure cannot be expected to prevent or even detect corruption or fraud. As pointed out by Mr M.A. Golden and Mr L. Picci in their study of involving the measurement of corruption, "[r]espondents directly involved in corruption may have incentives to underreport such involvement, and those not involved typically lack accurate information.

### **How it affects the South African business community**

South Africa does not have as developed a system for measuring corporate governance as other economies. This is demonstrated by the lack of governance rating agencies that exist in the country. Ratings Afrika is one organisation that has tried to implement a means to measure governance. The organisation drew up a survey that asked companies to measure their own corporate governance, but the response level in 2009 was disappointing. Of the Listed Top 40 companies, 68.3% did not respond, and 2.4% declined filling out the survey. This led the organisation to conclude that "[t]he survey cannot be considered successful in the level of response that it has generated..."

The Institute of Directors in Southern Africa (IoDSA) launched a similar product in February 2010, named the Governance Assessment Instrument (GAI). It consists of 300 questions relating to governance, with the results giving an "overview of the state of corporate governance in the company by category and subcategory". The creators of the project are aware of the limitations of the product, in particular the difficulty involved in measuring an intangible item such as corporate culture.

Ms A. Romahlo, executive director of the centre for corporate governance at the Institute of Directors in Southern Africa said: "[a]lthough the report does not indicate the quality of governance, it does give stakeholders and all other interested parties an idea of how well positioned an organisation is for good corporate governance." However, what matters in a changing company's governance is 'not the adoption of individual initiatives but the change in attitude that accompanies the use of a collection of governance measures'. Often just the focus on the governance of a company will result in an improvement in both its practices and policies.

Whether the project receives a positive response from South African companies remains to be seen. The South African business community does not currently place the same importance levels on corporate governance that do foreign markets. It is suggested that there are two factors that could explain this fact. First, South Africa has not needed to focus urgently on its corporate governance: the country has not been rocked by public fraud scandals, such as the 'Enron debacle' in the United States of America or the collapse of Parmalat in Europe. Adding to which, South Africa's economy has not been as affected by the global recession as other countries. One of the results of this is that investors have had less of a need to analyse or improve the country's corporate governance.

Second, the country's level of corporate governance is already relatively high. This could be because "[c]orporate governance in many emerging market companies is actually better than in more developed markets. It has needed to be more robust in order to attract capital.' South Africa is a country well regulated by both the King Code and Report on Governance for South Africa as well as the Companies Act No. 71 of 2008 (The Companies Act).

### **Recommendations**

There is much room for improvement with regard to compliance with the King Code and Report on Governance for South Africa (King III). It is suggested that a possible reason for this lack of compliance is that there is little tangible motivation for companies to spend time and resources to comply with all of the report's recommendations. A recommendation would be that, instead of merely forcing listed public companies to comply with King III, it could be helpful to create an incentive for companies to comply with King III. A corporate governance rating could supply this motivation, as companies that scored well on the rating would enhance their reputation, and open up potential investment opportunities.

For this reason it is recommended that a system of measuring corporate governance is implemented in South Africa. It can be seen from the low response levels achieved by Ratings Afrika, it will need to become well-known to be effective, so will need to either be government backed and compulsory for all JSE listed companies, or even legislatively enacted.

An ideal system will be one that requires companies to fill out a survey covering various corporate governance sections. These sections would be based on the recommendations of King III, and broken up into sections, with more important topics receiving a greater weighting towards the cumulative total. The survey would need to be filled out by the directors of the company, and these details would then need to be verified by an independent party – either by the rating agency itself, or by the company's external auditors. A system would be created online whereby a company's rating is uploaded and can be viewed by all interested parties. Details pertaining to that company's rating (compared to peers), along with details on how to improve it, would also be easily accessible, thereby encouraging continual improvement.

It has already been pointed out that emerging markets need to have better corporate governance than more developed markets in order to attract foreign capital. While implementing a system of measuring governance will not guarantee that corporate governance will be good, the process may contribute towards improving South Africa's global reputation, and thereby attracting overseas investment. asa

*For further reading, biography and references, please visit*

*[www.accountancysa.org.za](http://www.accountancysa.org.za)*

*Sam Bradley, BAcc, PGD (Acc), is currently studying his Masters in Commerce and is an academic trainee at Rhodes University.*

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## King III integrated report

**Why it's crucial to plan ahead** *The nature of corporate reporting has evolved tremendously over the past few years and now even more so since the inception of King III in March 2010, which stipulates that listed companies should submit an Integrated Report. Many have subsequently dubbed Integrated Reporting as a complex process.*

But the rationale behind Integrated Reporting was not to complicate reporting on business operations. It was rather created to stimulate integrated corporate strategies that are driven towards truly sustainable businesses. Companies that fully understand these King III principles and incorporate them in their core business strategies, will have no trouble at all with providing an Integrated Report on their business activities. And this is why it is so important to plan ahead. But, let us look at what Integrated Reporting really means...

### The meaning of Integrated Reporting

King III is the abbreviated name for the King Report on Corporate Governance for South Africa published in 2009, which officially came into effect on the 1st of March 2010. King III specifies that companies should issue an annual Integrated Report that provides a reliable, comprehensive and holistic overview of the company, from both a financial and a non-financial perspective. A key aspect of Integrated Reporting is that companies should be able to outline the impact of their businesses on all three spheres within which it operates: economic; social and environmental. These three elements are known as the Triple Bottom Line.

**Essentially, King III recognises that companies cannot separate their business objectives and drive for profitability from sustainability.** Integrated Reporting should therefore provide a more informed assessment of a company, based on both its economic and social value, and not only its book value. "Sustainability is the primary moral and economic imperative for the 21st century," as said by Mervyn King.

### The key components of a King III Integrated Report

The following summary highlights some of the key elements of business as it is addressed in the King III Integrated Report:

- **Effective Ethical Leadership and Corporate Citizenship:** A board should develop and implement the necessary policies and procedures to ensure that a company's operations positively impact on the triple bottom line and that the company thus qualifies to be regarded as a good Corporate Citizen;
- **Governance of Risk:** King III focuses on the definition of roles and responsibilities for an all-inclusive risk management approach that is firmly embedded in all aspects of a company's operations;
- **The Governance of Information Technology:** King III recognises the increasing importance of technology in business and notes that the adequate governance and management of IT resources are imperative for the success of any business;
- **Compliance with Laws, Codes, Rules and Standards:** King III takes corporate compliance to a whole new level by strongly promoting compliance, not only with statutory laws and minimum regulations, but also with other non-binding rules; codes and standards that will encourage good governance; and
- **Governing Stakeholder Relationships:** A new concept, called Alternative Dispute Resolution (ADR) is introduced in King III. King III further acknowledges the importance of stakeholder engagement and ADR such as effective resolution of disputes; taking all parties into account and the preservation of business relationships as important fundamentals for good corporate governance.

### The most important difference between King II and King III

The most important difference between King II and King III can simply be seen as follows: King II focused mostly on "reporting", whilst King III emphasises the importance of actually "doing". "Doing" rather than simply "reporting" is a concept that is also widely practised globally.

Internationally it seems that the sustainable development movement within corporations and enterprises is maturing. There is less talk about what is sustainability, less PR-based rhetoric, and **more commitment to real action amongst the leading companies.** Clearly, the concept of 'responsible competitiveness and leadership' seems to be taking root; that is; the notion that organisations can build innovation, market share and brand, based on their response to economical, environmental and social issues and risks. A number of large multinational corporations have begun to examine and develop new business models aimed at integrating the concepts of sustainable development and management into their core business objectives, risk management and operational strategies. The rationale for doing this is predominately based on the belief that aligning corporate objectives with stakeholders' needs and expectations is likely to generate sustainable growth in shareholder value over the long-term. In our experience, the ability to craft and implement a sustainable business strategy that is able to deliver tangible benefits to increasingly discerning and informed stakeholders and shareholders, is a significant challenge for today's CEOs.

### How to compile a King III Integrated Report successfully

The King III Report can be freely downloaded from the Internet. However, compiling an Integrated Report can be a daunting task for companies that are not yet familiar with the implications of the new King III or that do not yet have the expertise on board to interpret it correctly. But, the best way to successfully compile a King III Integrated Report remains to start it off correctly - by first integrating the principles of King III into the core business strategy in a practical manner", confirms Reana Rossouw. "Once it forms part of the everyday business activities, it will be very easy to report on it.

When it comes to the actual reporting process - most companies in South Africa follow the GRI (Global Reporting Initiative) Guidelines. These guidelines not only provide the context for 'what to report', but also 'how to report' and additionally, provide guidelines for reporting across the triple bottom line. It is important to note that an Integrated Report does not mean one single report - it simply means integrating both financial and non-financial information to provide a realistic,

future orientated picture of an organisation, so that its shareholders and stakeholders can make more informed decisions as far as the company is concerned.

This integrated report not only provides information about how the company plans to manage risks and uncertainties, but also how it would manage challenges and opportunities in the future in order to be more sustainable. It is not like historical annual financial reports, which traditionally only provided information about the previous year's results, or what the company chose to report on, but it supplements traditional annual reports with forward looking information and, more specifically, information on how a company plans to be sustainable in the future measured against specific targets it has set for itself.

**Towards the future:**

Even though an Integrated Report is called for – and companies will have to comply from the 2010/2011 financial year, it is important to recognise that, as yet, in South Africa we do not have a formal framework or guideline against which to report. A working committee has been established in South Africa to address the issue. However, at this point in time the first challenge for companies is not simply to produce an Integrated Report, but to provide a balanced report of combined financial and non financial information. **asa**

*Reana Rossouw CA(SA) is the Director of Next Generation Consultants, a thought leader in CSI and Sustainability.*

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## Sustainability intro

*The articles for this year's sustainability issue of ASA have been carefully selected. We wanted an eminent scientist's view of how climate change will impact South African businesses. We wanted an investor's view on whether social and environmental factors have started to influence company share prices.*

We wanted an update on the progress the top 100 listed companies are making on disclosing their carbon emissions and targets, and on how these companies are faring in the JSE's Socially Responsible Investment Index.

Of course, there was absolutely no choice as to the topic of our lead story. It had to be on the hotter than Hotazel topic of integrated reporting with an interview with local and international guru Professor Mervyn King. And, as it turned out, nearly all of the sustainability articles in this issue refer in some way to integrated reporting. I guess that shows how truly pervasive this new breed of reporting will be. It is indeed a concept that is about to turn corporate reporting as we know it on its head.

Integrated reporting can give the true picture of a company – much more so than that offered by the company's financial report or its sustainability report. As the King Report on Governance for South Africa 2009 (King III) states, a company's strategy, risk, performance and sustainability are inseparable. An integrated report can give this "full circle" picture of a company. And that is what investors and other long-term stakeholders, such as employees and suppliers really want to know. Is this company going to be around in a few years' time? What plans does it have to deal with a dwindling supply of fresh water and the impact of higher land temperatures and a rising sea level? Is the company talking to its major stakeholders and addressing their legitimate needs and concerns?

An integrated report can also reflect the company as being a responsible corporate citizen reporting to its stakeholders on its impact on the environment and the communities in which it operates.

King III calls for entities to issue an integrated report. As this Report now falls within the JSE Listing Requirements, listed companies have to produce an integrated report for their financial years starting on or after 1 March 2010.

It is for this reason that SAICA has initiated the formation of the Integrated Reporting Committee (IRC) to give guidance on good practice in integrated reporting. The IRC includes in its membership Business Unity SA, JSE Ltd, Association of Saving and Investments SA, Institute of Directors SA, the Banking Association of SA, as well as SAICA. The IRC is chaired by Professor Mervyn King.

The IRC's first guidance focuses on outlining a framework for an integrated report. The draft guidance is expected to be released in the near future. After the framework, the IRC will continue its work in looking at more detailed guidance on good practices in integrated reporting.

South Africa is not alone in looking at integrated reporting. In July this year, the International Integrated Reporting Committee (IIRC) was formed. Professor Mervyn King is the deputy chairman of the IIRC. He describes the formation of the IIRC as "an historical event". As he says, how often does one get the IASB (International Accounting Standards Board), IFAC (International Federation of Accountants), FASB (Financial Accounting Standards Board), the GRI (Global Reporting Initiative) and many other imposing bodies to sit around a table and agree that a new way of corporate reporting is needed!

In years to come, the formation of the IIRC may well be seen to be the moment when financial reporting collided with sustainability reporting and melded into a new reporting format that gives the true picture of an organisation's performance and where it's headed.

The rise of integrated reporting has huge implications for our profession. Registered auditors may wonder at the extent of their traditional audit, company directors need to direct the strategy and operations to build a sustainable business, financial directors may grapple with determining the materiality of non-financial issues, and financial managers will be hard at work to put systems in place to ensure the quality of the sustainability performance figures.

Who said accounting was boring?

Please keep up-to-date with developments in integrated reporting and sustainability reporting on our website [www.sustainabilitysa.org](http://www.sustainabilitysa.org). asa

**Compiled by:**

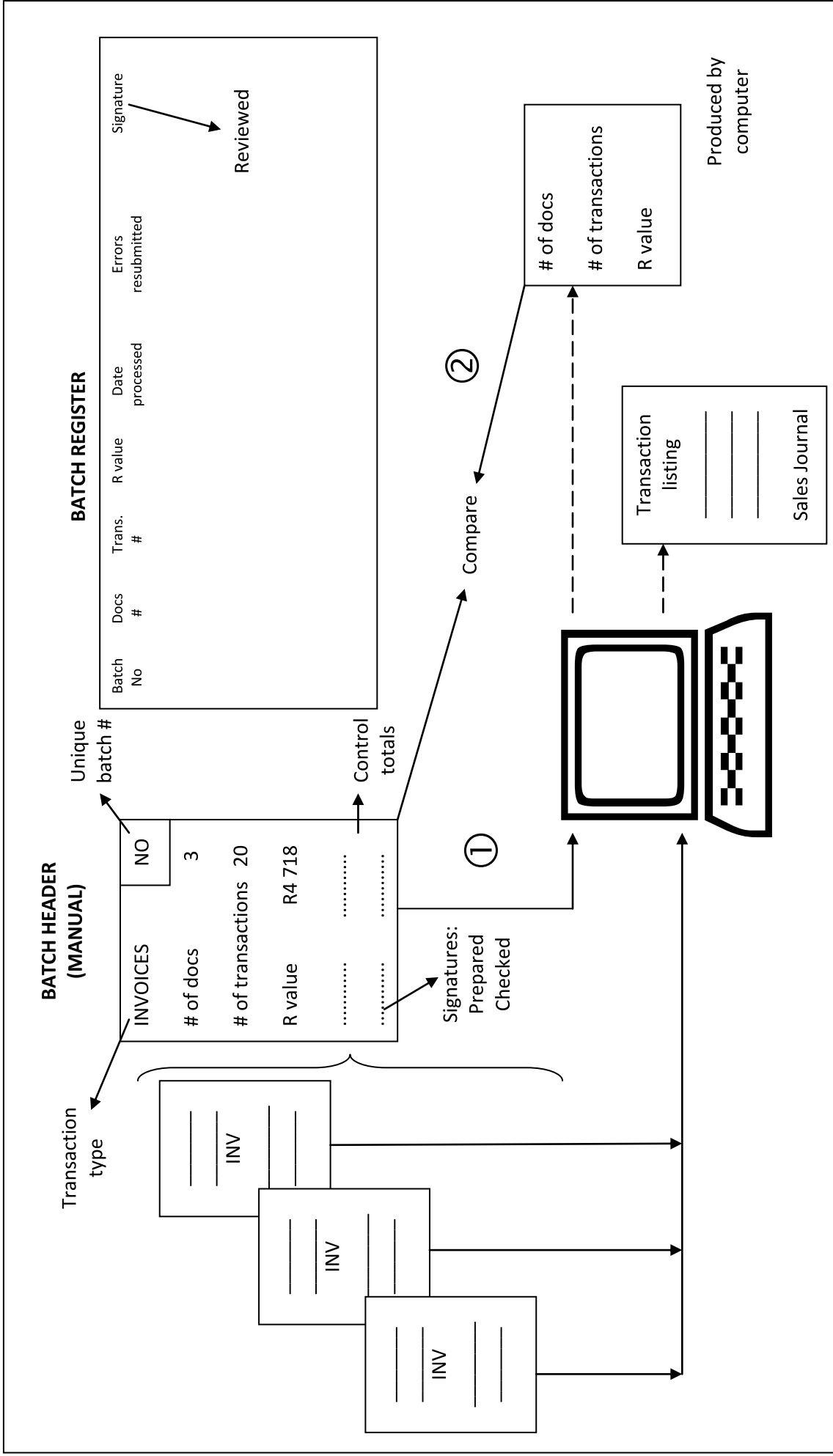
**Leigh Roberts CA(SA) is the Project Director: Sustainability, SAICA and a member of the working group of the Integrated Reporting Committee.**

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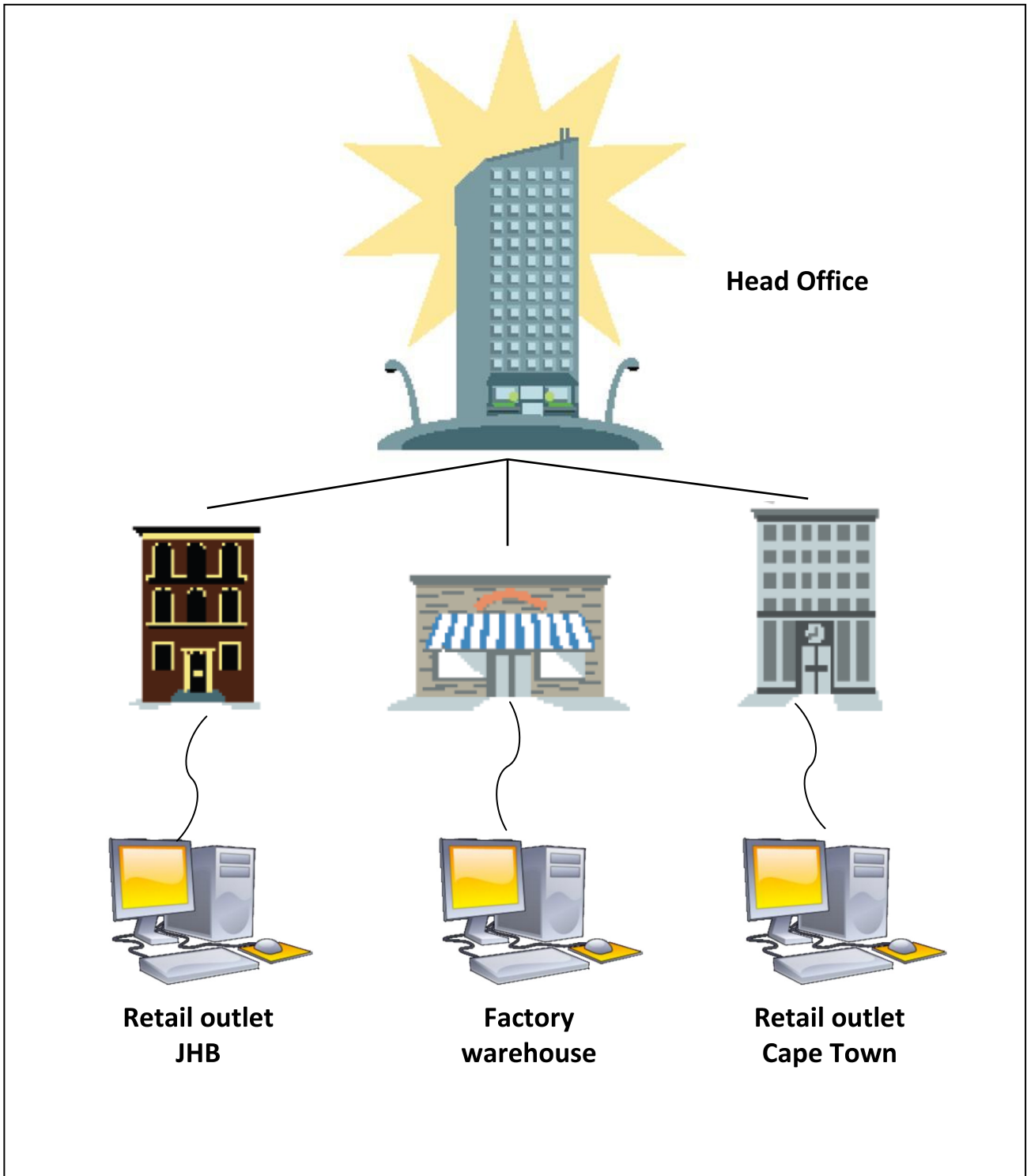
<http://www.accountancysa.org.za/resources/ShowItemArticle.asp?ArticleId=2085&issue=1099>



## 2. On-line Batch

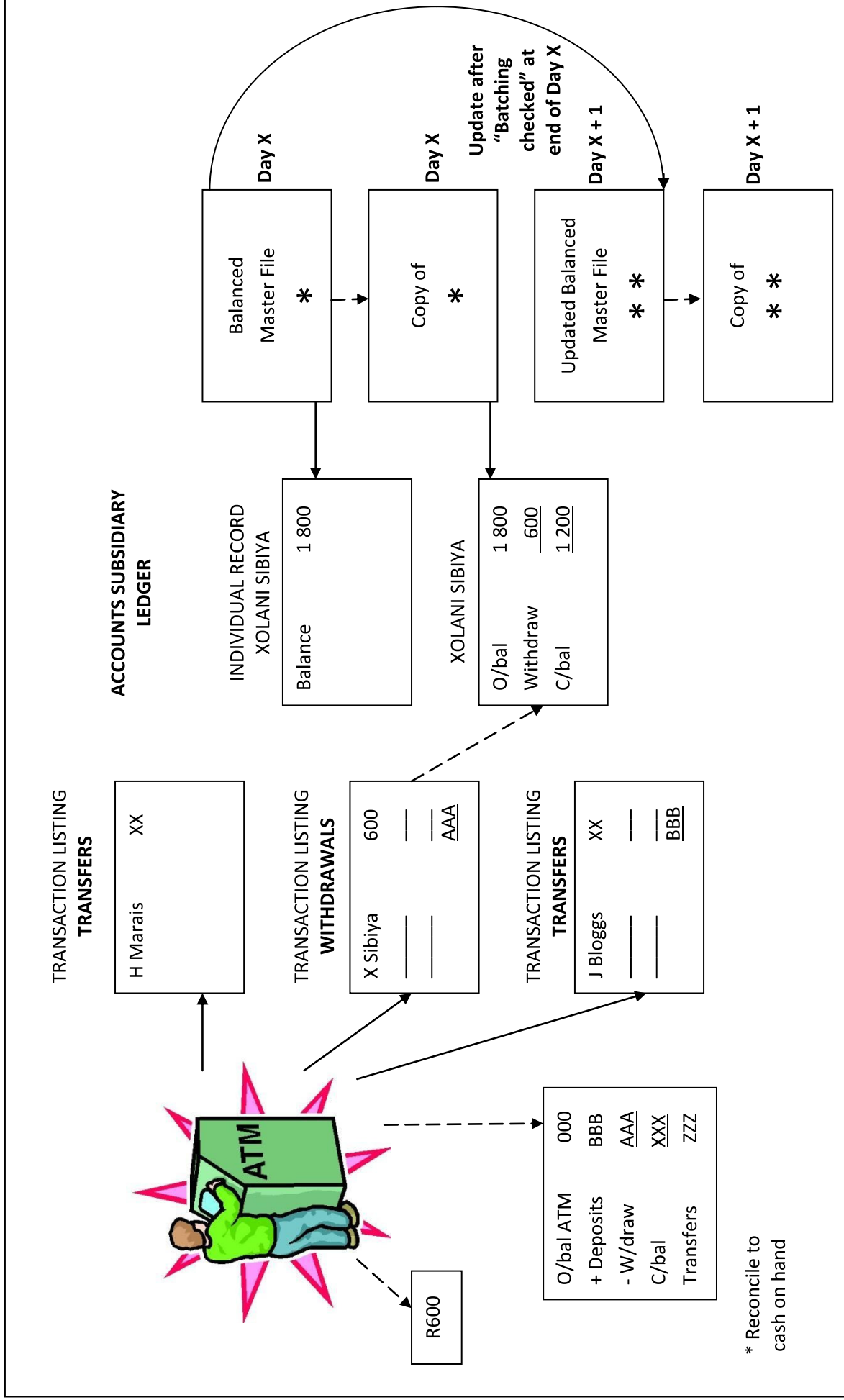


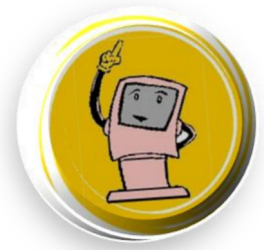
### 3. On-line uploading and downloading



REVISE branch accounting that you have done in ACC2012W (Mr Price example)

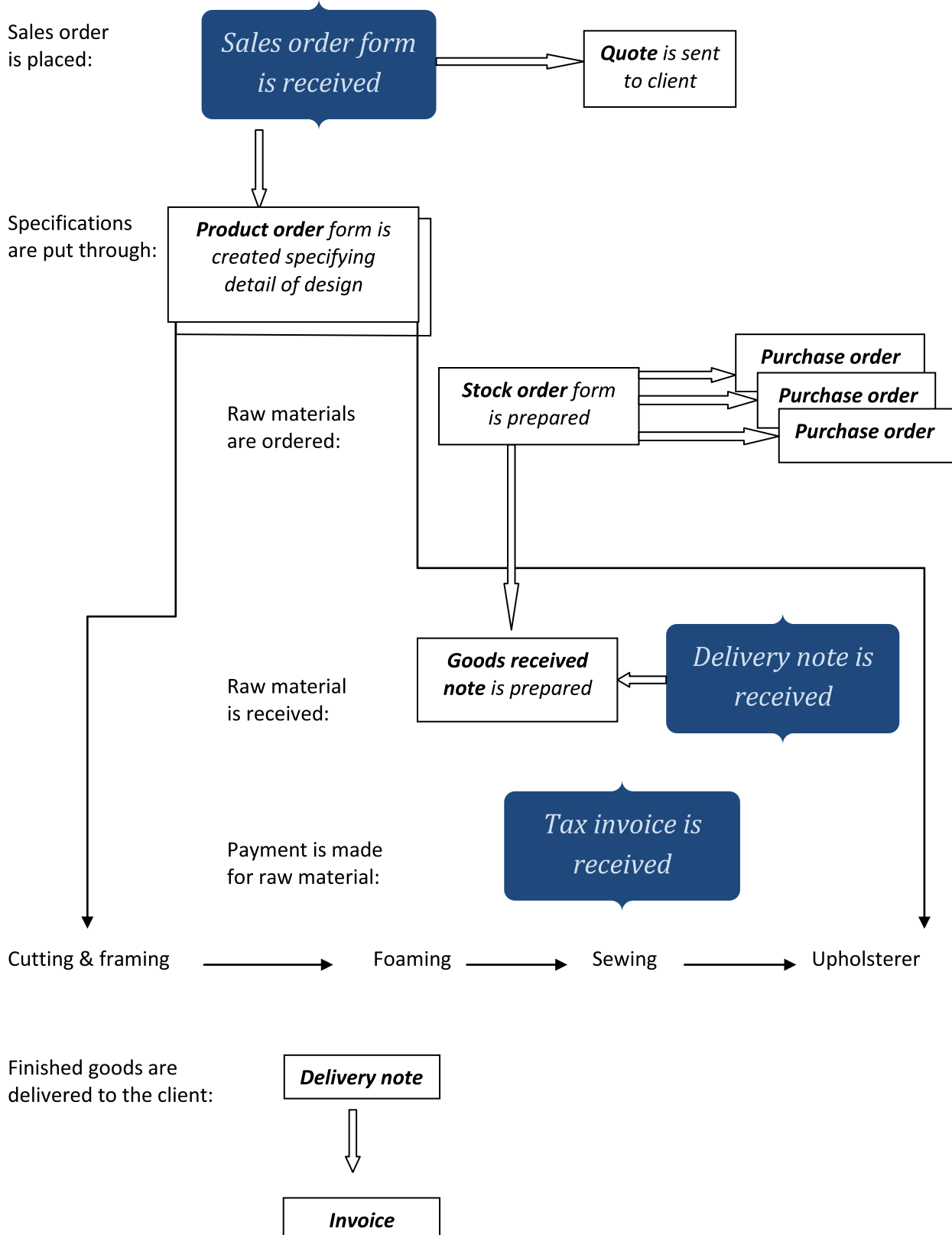
4. On-line memo processing





# Appendix D: Quick references

## Flow of Documents for Bellacraft Design



# Typical Medium / Large Business Organisation

Objectives  
Internal Controls

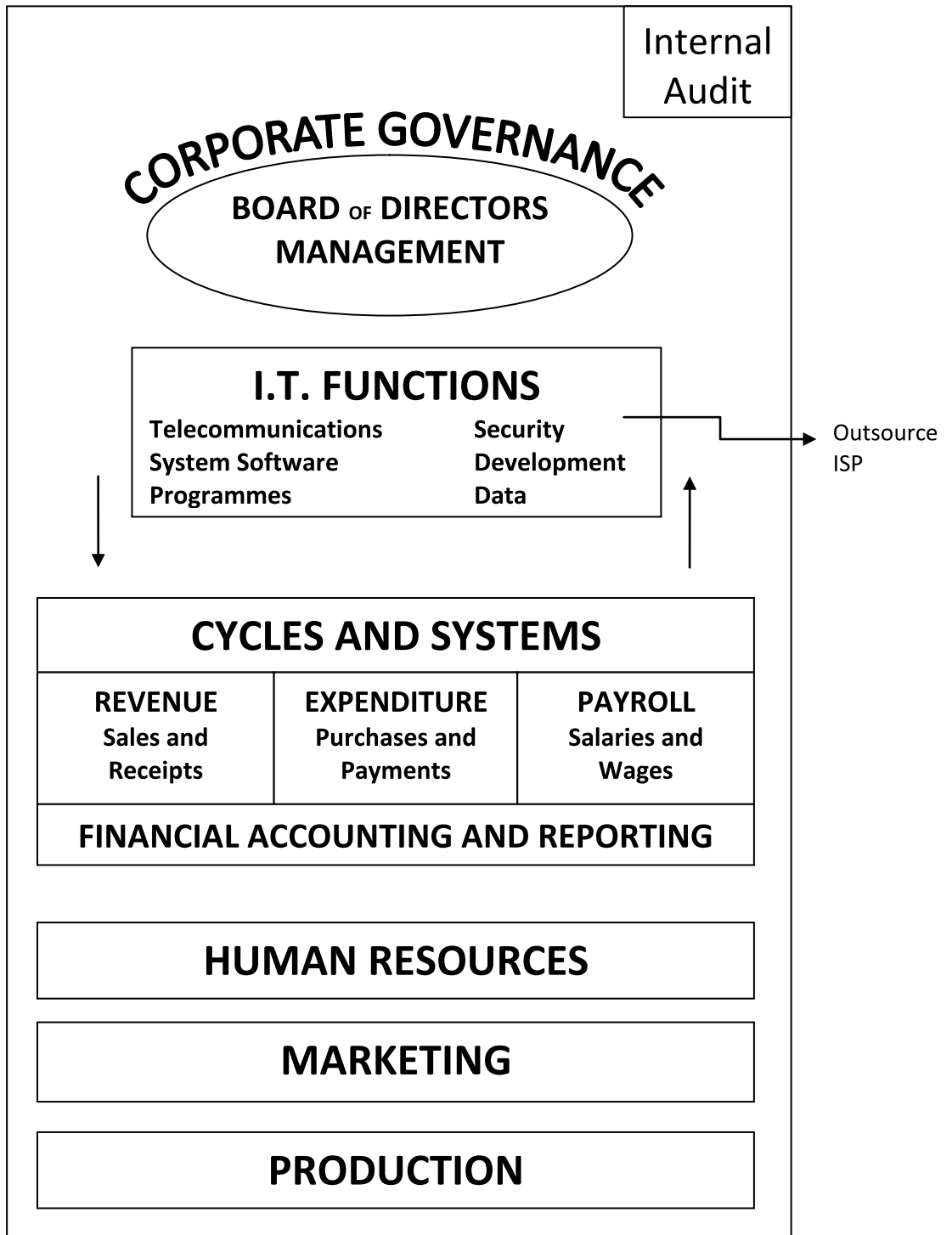


Diagram 5.1 - Typical Medium / Large Business Organisation

# S

## P(C)

### Segregation of duties

- ISOLATION OF RESPONSIBILITY
- INITIATION
- EXECUTION
- RECORDING
- CUSTODY

# A

### Physical Custody

- PHYSICAL SECURITY
- RESTRICT ACCESS
  - INTERNAL
  - EXTERNAL

### Authorisation

- ACKNOWLEDGE PHYSICAL TRANSFER
  - IDENTIFY ACCOUNTABILITY
- IN TERMS OF POLICIES

# R

### Information Processing

- **RECONCILIATION**
- UNDERLYING ASSETS
  - CASH
  - STOCK
- USE OF CONTROL ACCOUNTS/ SUB LEDGERS
- RAND VALUE
  - # RECORDS
  - #TRANSACTIONS
- NON-FINANCIAL
- INPUT – OUTPUT
- RUN-TO-RUN
- MASTER FILE UPDATES

## P/(M)

### Management

- POLICIES
- SUPERVISE
- REVIEW
  - LOGS
  - EXCEPTIONS
  - OVERALL
- PERFORMANCE
- FILE CONTENTS
- CUSTOMER
- COMPLAINTS
- AUDIT TRAIL
- RECONCILIATIONS
- IDENTIFY, CORRECT, & RESUBMIT ERRORS

# U

### UNUSED STATIONERY

- NEGOTIABLE  
REGISTER → CANCELLED SAFEGUARDED
- MINIMISE INFO
- CARBO
- PRE-NUMBER
- IDENTIFIABLE/NOT EASILY COPIED

# C

### CHECKING

- HUMAN
- COMPUTER

# N

### SEQUENCING

<h1>VALID</h1>	<div style="text-align: center;"> <pre> graph TD     Who --&gt; User     Who --&gt; Verify     User --&gt; SOD     User --&gt; Use     Verify --&gt; Menu     Verify --&gt; Functionality </pre> </div> <ul style="list-style-type: none"> <li>❖ SOD</li> <li>❖ <span style="border: 1px solid black; padding: 2px;">Authorisation</span></li> <li>❖ Control Over-rides (a la Pick 'n Pay)</li> <li>❖ Identify duplicates</li> </ul>
<h1>ACCURATE</h1>	<ul style="list-style-type: none"> <li>● Reduce likelihood of error <ul style="list-style-type: none"> <li>– Train (remember control environment people in specific duties are competent)</li> <li>– Help function / manual</li> <li>– User friendly screen / documents</li> <li>– Prompts / Drop down lists / minimise options</li> </ul> </li> <li>● Minimise input <ul style="list-style-type: none"> <li>– Automate / use of standing data</li> <li>– Preformatted keys</li> <li>– Touch screens</li> <li>– Scanners</li> </ul> </li> <li>● <span style="border: 1px solid black; padding: 2px;">Check input</span> <ul style="list-style-type: none"> <li>– Manual one-to-one check</li> <li>– Computer edit and validation checks</li> </ul> </li> </ul>
<h1>COMPLETE</h1>	<ul style="list-style-type: none"> <li>▪ Automatically numbered</li> <li>▪ <span style="border: 1px solid black; padding: 2px;">Numeric sequence check</span></li> <li>▪ Field presence check</li> <li>▪ Identify errors, correct and resubmit</li> </ul>