

Alexandra High School
 Accounting
 Grade 12
 Assessment Task: Written Report
 Topic: Ethical conduct / King Code / Professional Bodies / Audit reports and Internal control
 Marks: 115
 Due Date:

INSTRUCTIONS

1 Ethical behaviour

40

Following are examples of unethical behaviour with regards to companies.

Unethical behaviour	Explanation	Examples
Market manipulation	It involves a deliberate attempt to artificially increase or decrease a company's share price.	Churning: When a trader places both buy and sell orders at the same time to increase activity and therefore attract other investors. Painting the tape: When a group of traders create activity or rumors to drive up the price of stock. Cornering: Purchasing enough of a particular stock to gain control of the supply and be able to set the price for it.
Illegal insider trading	It involves buying or selling shares while possessing important confidential information about a company.	Tippling information or using tipped information: To do trading in order to make a profit or avoid losses.
Price fixing	When companies on the same side in a market conspire to buy or sell a product or service at a fixed price, or manipulate the market by controlling supply and demand.	If all cellphone service providers agree to sell airtime at the same rate per unit, higher than reasonable OR if those same service providers limit the amount of airtime available at certain times, and sell additional at a much higher price (as demand goes up, they control the selling price).
Corporate governance failure	When directors do not act in the best interest of the shareholders.	Accounting fraud: When directors manipulate financial indicators to mislead shareholders. Disclosure violations: When directors do not disclose accurate and complete financial statements
Conflict of interest	When there is a clash between professional obligations and personal interest.	Where an employee tries to perform a duty, but at the same time tries to achieve personal gain. Nepotism: The practice of giving one's relatives unfair advantages when one has power.
Bribery and corruption	When someone is guilty of dishonest practices, like bribery.	When a person gives or receives something of value, like cash or gifts, for the purpose of influencing someone's actions or views.

Read each of the following cases of illegal or unethical behaviour. State why it is illegal / unethical and what the consequences could be for the guilty party:

#	GHK Ltd purchased 250 000 tons of coffee beans, which caused the coffee bean prices to rise to their highest level ever.
#	Two board members of Pegasus Ltd were found guilty after it was discovered that they sold and re-purchased the same securities in order to generate activity and increase the price of their shares.
#	The Chief Executive Officer (CEO) of a company learns before anyone else that the company is to be sued for R700m for selling harmful products. The CEO and two employees decide to sell their shares quickly before this news becomes public.
#	An employee of a company starts a business that provides similar services to similar clients as those of her full-time employee.
#	In order to secure a contract, one of the directors of a company offered a government official the use of a company vehicle for free.
#	One of the managers of a company employed his son, who starts and finishes work when he wants and get a raise every year despite his poor performance.
#	In 2006, after an investigation, it was found that major companies in the bread production industry in South Africa held meetings to discuss pricing, agree on price increases and timing of such increases.
#	The CEO of the company instructs the accountant to enter the costs involved in accommodation for the directors for holidays as 'marketing costs'.
#	During the financial year a loan of R800 000 was granted to a company and paid into its account. The CEO instructs the accountant to show this money received for services rendered, as an income in the Income Statement.
#	Due to negligence and trying to cut costs, a company spilled dangerous chemicals in the nearby river.

- 2 **The King Code / King Report**
- 2.1 What is the purpose of the King Report? 2
- 2.2 What is the 'triple bottom line' that the King Code refer to? 3
- 2.3 The work done by the internal and external auditor differs. Briefly explain the work done by each group? 4
- 3 **Corporate Social Investment**
- Give an example and an explanation on how a company can apply Corporate Social Investment. In your example, how does the company 15
- 4 **Professional Bodies**
- What do the following abbreviations stand for, what is the aim of each and what qualification does a person need to be a member of each?
- # SAICA
- # SAIPA
- # IRBA
- 5 What can happen to an auditor when that person, who is a member of SAICA, is guilty of unprofessional or misconduct? 8
- 6 What is the purpose of the International Financial Reporting Standards (IFRS)? What is the difference between GAAP and IFRS? 6
- 7 The King Report often mentions that a company should have good internal control measures. Name three risks with regards to fixed assets and name three control measures to minimise these risks. 12
- 8 **Audit Reports**
- You are provided with the following extract taken from the report of the independent auditors. Read through it and answer the questions that follow.

EXTRACT FROM THE REPORT OF THE INDEPENDENT AUDITORS

PARAGRAPH 1	We have audited the annual financial statements of Mbekwa Limited set out on pages 8 to 17 for the year ended 30 September 2012. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion of these financial statements based on our audit.
PARAGRAPH 2	An audit includes: Examining, on a test basis, <u>evidence supporting the amounts</u> in the financial statements; Assessing the <u>accounting principles used</u> and significant estimates made by management; Evaluating the overall financial statement presentation.
PARAGRAPH 3	Audit opinion: In our opinion, the financial statements fairly present, in all material aspects, the financial position of the company and the group at 30 September 2012 and the results of their operations and cash flows for the year ended, in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act in South Africa. <i>Theron Du Plessis Chartered Accountants (SA) 12 November 2012.</i>

8.1	Explain why it is important for the independent auditor to be a member of a professional body.	2
8.2	Explain the difference between a qualified, unqualified and negative audit report.	6
8.3	Refer to the underlined sentence in paragraph 1. Why do the auditors include this sentence in their report? Briefly explain.	2
8.4	Refer to the underlined words in paragraph 2:	
	(a) Give an example of 'evidence' that an auditor would use by illustrating the audit trail of stock purchases.	6
	(b) Give ONE example of the 'accounting principles' s/he would assess as part of the audit with regards to stock specifically. Explain why the auditor would inspect thos principle.	3
8.5	Refer to paragraph 3. Explain why you should be satisfied with this audit opinion.	2

Alexandra High School
 Accounting
 Grade 12
 Assessment Task: Written Report
 Topic: Ethical conduct / King Code / Professional Bodies / Audit reports and Internal control
 Marks: 115
 Due Date: _____

NAME: _____

ADMIN NO: _____

1 Ethical behaviour

	Crimes or Unethical Practise?	Consequences for the guilty persons?
GHK Ltd purchased 250 000 tons of coffee beans, which caused the coffee bean prices to rise to their highest level ever.		
Two board members of Pegasus Ltd were found guilty after it was discovered that they sold and re-purchased the same securities in order to generate activity and increase the price of their shares.		
The Chief Executive Officer (CEO) of a company learns before anyone else that the company is to be sued for R700m for selling harmful products. The CEO and two employees decide to sell their shares quickly before this news becomes public.		
An employee of a company starts a business that provides similar services to similar clients as those of her full-time employee.		
In order to secure a contract, one of the directors of a company offered a government official the use of a company vehicle for free.		
One of the managers of a company employed his son, who starts and finishes work when he wants and get a raise every year despite his poor performance.		
In 2006, after an investigation, it was found that major companies in the bread production industry in South Africa held meetings to discuss pricing, agree on price increases and timing of such increases.		
The CEO of the company instructs the accountant to enter the costs involved in accomodation for the directors for holidays as 'marketing costs'.		
During the financial year a loan of R800 000 was granted to a company and paid into its account. The CEO instructs the accountant to show this money received for services rendered, as an income in the Income Statement.		
Due to negligence and trying to cut costs, a company spilled dangerous chemicals in the nearby river.		

