

MODULE 15

OBJECTIVES, RESPONSIBILITIES AND CONTROL OF BUSINESSES

Note to Teacher:

This module is very comprehensive and gives you the Teacher a wide choice in which to cover the required outcomes with your learners. You are asked to choose those tasks that best suit your particular learners. For most schools, it will be impossible to cover all the tasks – so be selective but ensure that you do cover all the assessment standards.

It would also be a good idea to cover this module throughout the year so that it becomes reinforced to the learners on an on-going basis. Choose different aspects to do at different times of the year.

An important part of any accountant's job is that of management involving setting objectives, taking responsibility to control the assets and effectiveness of the business so that it operates at its full potential.

While maximising profit is an extremely important goal, it cannot be achieved at the expense of other roles in the community. Thus ethics and morals in the business world has become a very important concept to incorporate in all decisions and actions taken by businesses and their leaders.

OVERVIEW OF THE MODULE:

Learners will initially be introduced to the concept of objectives (goals) and they need to realise that in most cases while there is likely to be an over-riding objective of maximising profits, all businesses will have secondary objectives. This is a good time to start introducing the concepts that all companies must also contribute to the environment and social responsibilities. Use examples of businesses in your area and identify what they put back into the community.

Once the objectives have been realised, it is then important to identify the risks that the business faces as this will prevent them from achieving their goals.

Finally, this leads to the important topic of internal control which businesses must introduce to ensure that their goals are achieved and identifying the risks and taking preventative action from the outset.

Fraud will also be discussed as this is one of the greatest risks experienced by most businesses. While some articles have been inserted in the Learner's Book and additional tasks in the Teacher's Guide, you are urged to rather use current cases that the learners can relate to.

If learners can appreciate the role of internal control and the importance of this function in the businesses, they will handle auditing and the role of the internal accountant and auditor in Grade 12 with much ease.

OBJECTIVES IN OPERATING AN ORGANISATION

TASK 15.1 Comparison

Allow the learners time to discuss this topic with each other. The purpose is to realise that we all have different purposes but that none are unimportant.

TASK 15.2 Question & Answer

Again this is an extension of task 15.1 with just another situation.

TASK 15.3 Career Choice

Having looked at objectives in a general sense, learners are now asked to write down their thoughts regarding a career choice. You could ask the learners to share some of their objectives but be careful as this might be a sensitive and personal issue. This concept could be expanded on in life orientation in goal setting, e.g. make use of Covey's theories on Highly Effective People.

EXTRA TASK 1 Research

NOTE:

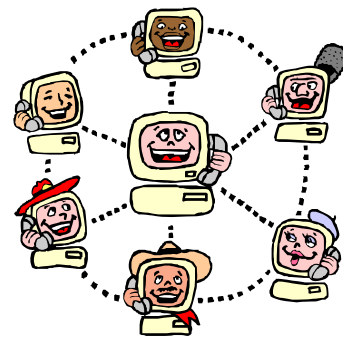
This is an extra task that is not in the Learner's Book but you can use it if you think it is appropriate to your learners and want to reinforce the objectives of a business even more.

You are required to compare the objectives, activities and procedures of two businessmen or entrepreneurs in your community. They must be chosen from opposite ends of the business spectrum.

- Person A must be chosen from the informal business community, i.e. this person does not have a formal registered business, but does rely upon it for his livelihood. There might be no capital requirement, no premises, very little equipment and no apparent accounting systems.
- Person B must be chosen from the formal business community, i.e. this person appears to have premises, equipment, capital and proper accounting systems.

Required:

1. Decide on the questions you must ask in order to establish the mission and objectives that each person has for his business; why he decided on this form of business; the major risks or fears that he faces in his line of business; what his business objectives and strategies are; how he promotes his business to potential customers; what bookkeeping systems he has in place and the extent of his capital investment needed to start his type of business.
2. Make an appointment to interview each businessman. Explain that this is a class assignment on business objectives and procedures (you might need a letter from your teacher).
3. Document the answers to your questions on a chart, or PowerPoint presentation.
4. Present your findings to the rest of the class.



Many businessmen or entrepreneurs start their businesses with the profit-motive in mind, but some do have philanthropic objectives as well, such as serving their community.

Give the learners time to complete this task. It would be advisable to monitor the process throughout, i.e. the planning stage, the actual interview and the report. This is an example of assessment in OBE where the process needs to be assessed as much as the final product.

Suggested Rubric

Criteria	Level 1	Level 2	Level 3	Level 4
Planning	Very poor planning	Some attempt at planning	Evidence of thorough planning	Excellent and thorough planning evident
Interview	Unacceptable interview	Some attempt to conduct a reasonable interview	Evidence of good interviews conducted	Highly professional interviews conducted
Validity of report	Unsatisfactory report	Some attempt to produce a report that is reasonable	A thorough report	An excellent report
Presentation	Unacceptable presentation	Some attempt to produce a reasonable presentation	Very good presentation	Highly professional presentation

Note:

- The measuring of the interview is not that obvious – you will have to use your discretion from interviews and report backs by the learners. You can also make use of peer assessment.

Note to Teacher:

Several tasks follow (15.4 – 15.9) that involve research and study of different aspects in the business world. While all are important, they will take time to complete. You are, therefore, requested to consider your own circumstances in the school and choose those topics that your learners can relate to. It would also be a good idea to give different groups of learners different topics to research. The important thing is to share this information with each other. This would be an ideal opportunity to invite the parents, management of the school and board of governors to a presentation of what you are doing in the class.

TASK 15.4 **Line of business**

This is just another task to promote self-study. The emphasis should be on identifying the objectives as against who the person is. Encourage the learners to see that profit is not the only objective.

TASK 15.5 **Question & Answer**

Learners are to study their own school and try to answer the questions listed. This is often something that the learners are unaware of, so it will have important life skills lessons as well. You could go further and allow them to interview members of management or even the board of governors.

TASK 15.6 **Research**

This is similar to the previous task except the learners now need to look for a business. Allowing them time to do these tasks will focus their attention on these important aspects and hopefully will be something they will become aware of in their day-to-day lives.

TASK 15.7 **Risks**

Allow learners to discuss this task before listing their answers.

POSSIBLE ANSWERS:

Type of business	Risks faced	Means to minimise risk
Fresh fruit and vegetable shop	Food going off	Hold only enough stock
Stationery shop	Competition	Keep stock that customers require
Clothes shop	Theft	Security cameras
Hi-fi shop	Breakages	Staff to demonstrate
Dentist	Accident while working on patient	Insurance
Travel agent	Weakening of the Rand	Research alternative venues
Estate agent	NCA	Ensure houses are priced accurately
Golf professional (e.g. Ernie Els)	Injuries	Exercise programme
Virgin Active (Richard Branson)	Recession	Competitive rates
Microsoft (Bill Gates)	Competition	Spend money on research

TASK 15.8 Coat-hangers

This task requires learners to make decisions regarding a potential business. At this stage, we are concentrating on an informal business.

POSSIBLE ANSWERS:

15.8.1	To sell as many coat hangers as possible to make the most profit.
15.8.2	Enough to buy the first supply of coat-hangers, packaging if necessary, advertising if necessary.
15.8.3	Coat-hangers been sold in shops; other sellers.
15.8.4	Find a spot where there are no other sellers; promote yourself by dancing or singing on the road, etc.
15.8.5	Cash must be put in the bank, safe storage space for the coat-hangers and other equipment.
15.8.6	If you sell your coat-hangers and make a profit.

TASK 15.9 Business

Learners now need to plan for a formal business.

POSSIBLE ANSWERS:

15.9.1	To make the maximum profit.
15.9.2	SALES AND CUSTOMER RELATIONS: Sell as many products as possible. Ensure good customer relations so that customers come back. Be honest and act with integrity to the customers. Etc. FINANCE: To ensure all cash is collected on time. All accounts are paid on time. Control the cash so that it does not go missing. Keep accurate records. Etc. ADMINISTRATION: Monitor stock and place orders of stock in time. Control the stocks. Screen potential debtors. Send out statements on time. Offer efficient and up-to-date service. Etc.
15.9.3	Budgets and targets must be set and staff must be accountable for achieving these goals or be able to explain why they were not met.
15.9.4	Show respect to each staff member. Give them responsibilities but spell out the consequences of their actions. Etc.

EXTRA TASKS

Note to Teacher:

You can choose between these extra tasks or allow half the pupils to do one role play and the other half, the other. You could also come up with your own scenarios. These are good tasks if you and your class enjoy role-play.

EXTRA TASK 2 Role-play

A sales representative of the local newspaper company visited Mrs Jones. The sales representative was very convincing and offered Mrs Jones a good deal to get the morning newspaper delivered to her home every morning. Mrs Jones paid the R300 required for six months' subscription.

Over the next few days, the newspaper either arrived late after she had left for work, or it had not been delivered at all. She decided to phone the newspaper company. She asked to speak to the sales representative who had sold her the subscription – this person simply said that she does not deal with deliveries and put her through to the manager of the deliveries department. The deliveries manager said that Mrs Jones was unreasonable to expect that the newspapers would be delivered before she left for work, and also said that the deliveries to her home were to be discontinued the following week because it appeared her

cheque had been dishonoured. Mrs Jones argued that the cheque was not dishonoured and it had appeared on her bank statement. She was then put through to the financial manager who said he would look up her details and phone her back. Three hours later, the finance manager had still not called back.

Mrs Jones made an appointment to meet with the Managing Director of the newspaper company to talk to him about the 'sense of accountability' of his employees.

Required:

What are the points that she should raise with him about his business?

EXTRA TASK 3 Role-play/discussion

You have started a small car-wash business. You appoint a manager to run the business for you. He is responsible for dealing with customers, controlling the cash received and managing the three employees.

At the end of the first month, three customers have complained that their cars have been damaged, and R1 000 of the fee income appears to be missing. The manager tells you that it is not his fault. One of the employees had used too much polish and the money went missing on the day that he had to attend a friend's birthday party. He felt that he had acted responsibly by placing the oldest employee in charge while he was away. You give him due notice to appear in your office for a disciplinary hearing.

Required:

How would you conduct the hearing? What issues will you raise with him about 'accountability'?

INTERNAL CONTROL

TASK 15.10 School rule

This gives the learners an opportunity to conduct a debate around issues that concern them at school. It is a good method of allowing them to voice their grievances but to realise there is a reason for the rule, they must come up with an alternative.

TASK 15.11 Doctor's practice

Another example of a role-play that the learners can do with the emphasis being on internal control.

TASK 15.12 Question & Answer

15.12.1 Various answers – medical equipment, desks, computers, furniture, etc.

15.12.2 Various answers to introduce security measures and internal control procedures.

TASK 15.13 Question & Answer

Various answers around control of cash, e.g. another person to check on the receptionist, the doctor to be reported to, different person to keep the accounts, etc.

TASK 15.14 Supermarket research

The purpose of this task is for learners to visit a local supermarket and to witness internal control measures. Conducting interviews is also a valuable life skill that you are teaching the learners. However, ensure that in their groups, it is not always the same person doing the interview. Learners should start becoming aware of the importance of division of duties.

TASK 15.15 BB Books

Allow learners to engage with the different scenarios and to discuss possible solutions. Allow some form of debate to encourage higher order thinking.

FRAUD

The fraud triangle given in the Learner's Book is one method of showing that there is an interaction between fraud and opportunities, rationalisation and pressure/incentive. While discussing the various case studies refer back to these concepts so that learners can identify whether they think these factors were evident or not.

Note to Teacher:

3 extracts of articles have been given to the learners to prompt a discussion on fraud and ethics. A further case study that is several years old, but is still very relevant is included hereunder that you may copy and use as a further example. You are strongly urged to find current case studies for your learners.

Consider the following article that appeared in the Business Report on Sept 19, 2002:

NOTE:

This article is now several years old but is still very relevant today and therefore we are not updating the article. However, your teacher will supply you with extra tasks and articles on more up-to-date cases.

SURVEY

EMPLOYEES ARE ENEMY NUMBER ONE:

Fraud perpetrated by employees is growing rapidly, showing this group as the major source of organisational fraud and responsible for the largest financial losses, says professional services firm KPMG in its latest fraud survey.

The study, conducted in South and Southern Africa, and which for the first time includes public sector organisations, shows that this trend now stands at 88% which is up an alarming 130% from the firm's previous study.

Studies conducted in recent years have seen fraud grow in quantum and sophistication. "The increasing complexity of business competition has made it more tempting to commit fraud and also more difficult to detect," says KPMG Forensic managing partner Petrus Marais. "Respondents indicate that fraud is still a major problem in their organisations and that it will remain a problem in future. Three quarters of the respondents believe that fraud will increase in the future, mainly due to economic pressure, lack of adequate penalties and law enforcement, as well as inefficiencies in the justice system.

"However, organisations can proactively manage this challenge by reviewing and improving their internal controls to reduce the possibility of fraud. These controls are a critical part of detecting and combating fraud.

"Further, the informant or whistleblower is also proving more important with a proportion of fraud being highlighted by this group.

"Organisations are also encouraged to look to ethics policies, awareness and training in addressing this problem," he says.

"One should not underestimate the power of whistleblower legislation. Considered the best in the world, South Africa's legislation appears to be paying off.

"While providing organisations and employees with the necessary legal mechanisms for combating fraud, it

also entrenches the obligations of employers to assist and protect whistleblowers in their organisations. This is a very necessary part of the whistleblower process," says Marais.

Marais says that it is disconcerting to see that while organisations have early-warning detection systems, these red flags are largely ignored.

However, an area which shows a marked improvement is the screening of employees and suppliers. Almost all respondents utilise screening procedures during the appointment of new employees.

Quite clearly, the survey also shows that our organisations see ethical standards as important with 71% of respondents indicating that their organisations have written policy documents containing guidelines about acceptable ethical behaviour.

"Unfortunately the benefit of these ethical guidelines is eroded by the fact that only 69% communicate their ethical standards to employees, customers and suppliers," comments Marais.

Even more disappointing is the fact that the 2001 Ethics Survey conducted by KPMG and the Public Service Commission indicates that well below 50% of organisations provide ethics training to employees. The lesson to be drawn from these statistics is that the problem of fraud and dishonesty is primarily an internal one.

"In order to curtail fraud related losses, organisations must look to internal controls that focus on fraud risks as well as business risks, and have fraud prevention plans or strategies which guide management in controlling the fraud risk.

"They must also utilise the assistance provided by the Public Disclosure Act, and raise the level of ethical awareness across the board," says Marais.

Required:

1. Three-quarters of the respondents believe that fraud will increase in future. Do you agree or disagree with this opinion? Explain.
2. According to your readings do you believe there is any change in the situation today? Quote actual examples to support your answer.
3. How can business organisations manage this problem?
4. What is your opinion on the 'whistleblower'? How should businesses react towards them?
5. What is your opinion on 'screening' of employees? How should this be done?
6. Do you feel ethics training is necessary? Why?
7. What is the difference between 'business risks' and 'fraud risks'?

TASK 15.16 **Case studies**

POINTS TO CONSIDER WHEN READING AND DISCUSSING THE FOLLOWING ARTICLES:

1.	What is common to the different case studies? Individuals have defrauded the different organisations by abusing their positions.
2.	What are the problems / unethical behaviour that has taken place in each case? ASA – Bribery, Personal loans from ASA, bought a vehicle at R1, employed a friend that did no work, etc. Ethekeweni – procurement of tenders. Transport – awarding contracts at inflated prices, possible back-hands.
3.	How could these problems / unethical behavior have been avoided? Internal controls; need for authorisation; division of duties; adequate documentation.

TASK 15.17 **Internal control procedures**

Learners to research this topic and apply the learning during this year in order to give examples.

TASK 15.18 **Question & Answer**

Allow learners to come up with their own fraud cases but very importantly to discuss measures to prevent this.

TASK 15.19 **Project**

Learners to come up with their own suggestions, using the example given.

OPTIONAL ADDITIONAL GRID

The Teacher can use this grid to get learners see the areas of responsibility in a business organisation.

Area of responsibility	Name of person in charge	Examples of some problems
Cash transactions		Money banked does not equal money collected by cashiers. Petty cash goes missing. Cash slips are not always made out. The business needs to obtain a bank overdraft to cover running expenses. There is concern that the mark-up % being used is unreasonable.
Credit transactions		Sales persons are under-charging their friends. Bad debts are high. Customers argue about the amounts on their statements.
Financial statements		The owners of the business are unhappy with their returns. Liquidity and solvency are potential problems. The levels of certain expenses are difficult to understand e.g. advertising is very high, repairs are very low, etc. The financial statements reflect no emphasis on environmental or social issues.
Salaries & wages & VAT		Employees are unhappy with their remuneration and working conditions and they feel that the managers get far more perks than they ordinary workers. The Wages Journal reflects certain employees who do not exist. The business is spending a lot of money on unnecessary overtime. VAT is being collected from customers but is not always paid over to SARS.
Managerial accounting – budgets & costs		There is criticism that the business is more concerned about profits and cost-cutting than it is about other important issues. See above re the salary & wage issues.
Stock control – periodic or perpetual system		There are many stock shortages each month. Customers are complaining that the business does not always stock the goods and the sizes they want to buy. Some stock is very old and is gathering dust.

THE ROLE OF THE AUDITOR

NOTE:

The role of the auditor is only part of the Grade 12 curriculum. However, he is a very important person in the internal control functions in the business. The information that follows is for your use only and we suggest you share what you think the learners can absorb at the most appropriate times for them.

An auditor is a person who expresses an opinion on financial information.

The word originates from the Latin word 'audio' i.e. 'to hear'. In ancient times, respected persons would be required to 'hear' explanations from the entrepreneurs or businessmen of the time, and then express an opinion as to whether the information is reliable or not. For example, the Dutch East India Company sponsored Jan van Riebeeck's voyage to the East. On his return, he would reasonably be expected to 'explain' or 'account for' the investment that they had made. The role of the auditor would have been to assess the reliability or not, of the 'account'.



In modern times, the auditor has taken on an increasingly important role. For example, these days many business owners do not direct their own businesses, e.g. shareholders of large companies. Other persons are responsible for processing and communicating the financial information, i.e. the directors. The owners will require an assurance as to whether or not the financial information can be relied upon to make their own decisions.

Because auditors fill such an important role, they are required to possess certain accounting qualifications and they are required to belong to a professional body of accountants. In South Africa, in order to express an opinion on a set of financial statements of a public company, the auditor must be a chartered accountant in possession of a CA (SA) qualification. This he obtains after achieving a university degree, a post-graduate diploma, a period of traineeship in a firm of public accountants, and the final qualifying examination set by the SA Institute of Chartered Accountants.

The auditor is required to express an opinion on the financial statements to the owners (shareholders). He is required to inspect the books and conduct tests to ensure that the internal controls and the books are reliable as these are the systems that provide the information for the financial statements.

It is not the main role of an auditor to search for fraud or error that might or might not have taken place. If he comes across fraud or error during the course of his investigation, then he does have a duty to report it to the appropriate persons, usually the owners.

For smaller businesses, such as sole traderships, partnerships and close corporations, it is not necessary for the financial statements to be audited as the owners have a means of checking the books for themselves. However, an owner may decide to have the business' financial records audited for specific reasons, e.g. in the case of selling their businesses to new owners. He may also decide on a specific audit to be done for a specific purpose, e.g. to assess the internal control procedures or to identify fraud which he suspects might have taken place. The business will bear the cost of the auditor's fees.

Despite the fact that the auditor's role is normally restricted to expressing an opinion on the financial statements, he does make an important contribution in assessing the internal control procedures of a business and in so doing, deterring the incidence of fraud or error.

You will learn more about internal and external auditors in your future studies in Grades 11 and 12. For your own interest, you are referred to high-profile incidents involving auditors. Search the press or the Internet for information on the companies such as Enron, Worldcom and Parmalat.

NOTE: These extra tasks are for extra information and extension in class.

EXTRA TASK 4 Audit Report

Search the financial section of newspapers for an audit report.

Required:

1. What is the name of the business being audited?
2. What is the name of the auditing firm?
3. What was the auditor's opinion on the financial statements?
4. Did they express any restrictions on the tests they conducted? Why is it necessary for them to do this?
5. Would you be confident in relying on the financial information provided in deciding whether or not to invest in this business? Explain.
6. Would you consider investing in this business if there was no audit report attached to the financial information? Explain.
7. Make a presentation to the class.

EXTRA TASK 5 Case Study

Consider the following article which appeared in Time magazine, March 29, 2004 concerning an investigation into dairy produce firm, Parmalat, in Italy:

PARMALAT ON ICE

The milkmen were delivered just in time. After a three-month probe, Milan prosecutors sought indictments against Parmalat founder Calisto Tanzi, former finance director Fausto Tonna and 27 other people last week, the day before the expiration date to qualify for fast-track court proceedings in the Euro14 billion collapse of the Italian dairy-and-food giant.

The executives are accused of an elaborate fraud scheme, including falsifying balance sheets and misleading investors. The Italian affiliates of Bank of America and auditing houses Grant Thornton and Deloitte & Touche also face indictment (they deny wrongdoing).

Prosecutors hope to skip the preliminary hearing and obtain rapid convictions in a case that has eroded confidence in Italian industry and finance.

Another important delivery arrived last week, as state-appointed executor Enrico Bondi presented his bailout plan. He hopes to sell all non-core businesses and reduce Parmalat's brands from 120 to 30 (concentrating on fruit juices and, of course, milk). Prosecutors in Milan are expected to seek more trials, under normal timetables, against other suspects.

Required:

1. Who started the Parmalat company?
2. Who is the financial director being prosecuted?
3. Which auditing firms might be charged in this case? In your opinion, why are these auditing firms possibly facing court action in Italy?
4. Why does the article state that this case has 'eroded confidence in Italian industry and finance'? Explain.
5. What is the plan to get Parmalat into a profitable situation once more?
6. Why is it important for this to happen?
7. Why do they not simply close down the company?

EXTRA TASK 6 Overview of internal control & ethics

This activity is to be completed in groups of 7 people. One person is to be elected as the Financial Director and another as Executive Secretary. The other five people are appointed to manage specific areas of concern.

The business which employs you has a reputation of:

- Theft of business assets, poor internal controls and not achieving its business objectives; and
- Lazy staff and unethical attitudes in treating staff and customers.

The Financial Director facilitates a meeting of the managers to discuss and summarise strategies. He/she is also responsible for ensuring that the team works well together in developing and presenting their strategies. The Secretary is responsible for summarising or collating all the information provided by the managers.

Required:

- Decide on a name for the business and type of business activity.
- Appoint a Financial Director, Executive Secretary and Managers in charge of the six areas of concern.
- Individually, each manager identifies the possible problems within his area of concern and lists the strategies he/she would like to implement to solve those problems.
- The Financial Director assisted by Secretary organises and conducts a committee meeting at which all the managers table their ideas. Notice of meeting and an Agenda should be prepared. The Financial Director invites all managers to provide further ideas on areas of concern other than their own. Managers are then required to respond to other suggestions, and amend their strategies.
- The committee decides on the appropriate way of presenting these suggestions to the Managing Director, and prepares the presentation accordingly. The Financial Director and Secretary are responsible for driving this process through to a satisfactory conclusion.
- The committee presents its suggestions to the Managing Director (i.e. the Teacher).

CHECKLIST

Skills	Yes – proficient	Requires more attention	Complete
To appreciate the value of setting objectives.			
Understand the risks associated with running a business.			
To appreciate the need to plan.			
To understand the concept, 'internal control'.			
Understand the difference between fraud and error.			
To appreciate the need for internal control.			
Devise systems for internal control.			
Understand the role of the auditor.			