

Tutorial Letter 202/2/2018

CORPORATE GOVERNANCE IN ACCOUNTANCY

AUE2602

Semester 2

Department of Auditing

IMPORTANT INFORMATION

This tutorial letter contains the suggested answers to and comments on Assignment 02 for the second semester and the additional assessment.

BARCODE



Please note:

This tutorial letter contains the key to and comments on Assignment 02.

ASSIGNMENT 02 – SECOND SEMESTER

80 MARKS

QUESTION 1

12 marks

Non-compliance with the King IV Report regarding sound corporate governance

Reference: The King IV Report (2016:43-73)

1. Board of directors

1. According to principle 7 point 31, the chair of the board should be an independent, non-executive director. Even though Mr Stark retired as CEO 6 years ago, his daughters, Ms S Stark and Ms A Stark hold significant positions in Westeros Limited, impeding Mr Stark's independence. Westeros Limited does not comply with this King IV recommendation. (1½)
2. In terms of principle 7 point 8, the board should comprise a balance of power with a majority of non- executive directors. Westeros's board currently consists of five executive directors and four non-executive directors; therefore, the majority of directors are not non-executive directors and they do not comply. (1½)
3. In terms of principle 7 point 8, the board should comprise a balance of power with a majority of non- executive directors, of which the majority should be independent. Westeros's board currently consists of two non-executive directors and two independent non-executive directors; therefore, the majority of directors are not independent non-executive directors and they do not comply. (1½)

2. Audit Committee

1. The chair of the board may not be a member of the audit committee (principle 7 point 36.a) Currently, Westeros Limited do not comply as the chair of the board also chairs the audit committee. (1½)
2. According to principle 7 point 57 of the King IV Report, the audit committee should be chaired by an independent, non-executive director. Mr Stark is not an independent, non-executive director because he has close relatives that serve in the positions of CFO and IT Director. (1½)
3. All members of the audit committee should be independent, non-executive directors. Only Mr Seaworth and Mr Drogo are independent non-executive directors. (1½)

3. Risk Committee

1. According to the King IV Report, principle 7 point 46, each committee should have a minimum of three members. As the risk committee of Westeros Limited only has two members, they do not comply with this recommendation. (1½)
2. The majority of members that make up this committee should be non-executive directors; currently there is one non-executive member and one executive member; therefore, they do not comply. (principle 7 point 64) (1½)

Comments

- You were only required to comment on **non-compliance** with the King IV Report.
- All you had to do was to identify instances of non-compliance and include a brief explanations; you did not have to give the specific King IV Report principle. The solution includes the principle for reference purposes only.
- Did you notice how the scenario information was applied to the solution?
- You need to have a good understanding of the principles of the King IV Report to be able to answer this question. Your knowledge of the principles will assist you throughout your studies as you become a more advanced auditing student.

QUESTION 2

12 marks

Independent non-executive director requirements

Reference: King IV Report (2016:52), principle 7 point 28

To be classified as independent, a non-executive director:

1. Must not be a representative of a shareowner who has the ability to control or significantly influence management. (1½)
2. Must not have been employed by the company or the group of which it currently forms part, in any executive capacity for the preceding three financial years. (1½)
3. Must not be a member of the immediate family of an individual who is, or has been in any of the past three financial years, employed by the company or the group in an executive capacity. (1½)
4. Must not be a professional advisor to the company or the group, other than in a director capacity. (1½)
5. Must not have a direct or indirect interest in the company that is material to the director or the company. (1½)
6. Must be free from any business or other relationship which could be seen to materially interfere with the individual's capacity to act in an independent manner, e.g. major supplier or customer. (1½)

7. Does not receive remuneration contingent upon the performance of the company. (1½)
8. Must not be a significant provider of financial capital, or ongoing funding to the organisation, or be an officer, employee or representative of such provider of financial capital or funding. (1½)

Comments

You should be able to identify if a non-executive director can be classified as independent.

QUESTION 3

13 marks

Inventory valuation

Reference: Jackson & Stent (2016: 12/18 – 12/20), section 3

1.3.1 Item	Included (R)	Excluded (R)
1. Raw material	R 1 055 000 (1½)	
2. Import duties	R 84 000 (1½)	
3. Salary – secretary		R 22 000 (1½)
4. Salary – design architect	R 47 000 (1½)	
5. Wages – factory workers	R 98 000 (1½)	
6. Material lost		R 41 000 (1½)
7. Commissions		R 14 000 (1½)
1.3.2 Value of inventory	R 1 284 000 (1½)	

(1 mark for correct presentation in a table format)

Comments

The cost of inventory should consist of the following:

- All costs of purchase, including import duties and transport costs incurred in the acquisition of materials and goods for resale.
- Conversion costs, for example direct labour and production overheads.
- Costs incurred in bringing the inventory to its present location and condition, for example costs incurred in designing a product for a specific customer.

QUESTION 4

9 marks

Memo on the importance of restricting access to the bank account

Reference: Jackson & Stent (2016: 8/30-8/31), section 2.6

Iron Throne Auditors

To: Ms S Stark

From: AUE2602 student

Date: xx-xxxx-20xx

RE: Importance of restricting access to the bank account

Violations of access to the bank account in a computerised system can have extremely serious consequences for the business. (1½) These include:

1. Destruction of data: The internet bank account itself or account details could be deleted. (1½)
2. "Theft" of data: Bank account details could be stolen and abused. (1½)
3. Improper changes to data: Payment beneficiaries' details could be changed in order to channel payments to unauthorised accounts. (1½)
4. Recording of unauthorised or non-existent transactions: Unauthorised transfers of money could be done. (1½)

(1½ mark for correct presentation in a memo format)

Comments

Did you provide your answer in a memo format? Marks were awarded for presenting your answer in the format required.

The solution in your text book is theoretical, but did you notice how it was applied to the given scenario?

QUESTION 5

15 marks

Password controls

Reference: Jackson & Stent (2016: 8/20)

1. Passwords should be unique to each individual. (1½)
2. Passwords should consist of at least six characters, and should contain a mix of letters, numbers, upper and lower case letters and symbols. (1½)
3. Passwords for terminated or transferred personnel should be removed or disabled at the time of termination or transfer. (1½)
4. Passwords should be changed regularly and users should be forced by the system to change their passwords. (1½)

5. The first time a new employee accesses the system, he/she should be prompted to change his/her initial password. (1½)
6. Passwords should not be displayed by the PC at any time. (1½)
7. Password files should be subject to strict access controls through the use of encryption techniques. (1½)
8. Personnel are to be prohibited from disclosing their passwords to others, and should be subjected to disciplinary action if they disclose their passwords. (1½)
9. Passwords should be changed if their confidentiality has been violated. (1½)
10. Passwords should be random and not obvious, for example, birthdays, names, common words and so forth. (1½)

Comments

Password controls are an important logical access control measure in a computerised environment and can be applied to all business cycles. Take note that logical access controls are covered under both general and application controls. Refer to Jackson and Stent (2016: 8/18) for a discussion of this principle.

QUESTION 6

19 marks

Risks and internal controls of the acquisition and payment cycle

Reference: Jackson & Stent (2016: 11/10 – 11/11)

Risk	Internal control(s)
A <i>Example: Acceptance of damaged or broken items.</i>	<i>(provide 1 internal control)</i> <i>Example:</i> <ul style="list-style-type: none"> On arrival of the delivery vehicle, the goods receiving clerk should reject all incorrect deliveries and clearly identify rejections on both copies of the delivery note and purchase order.
B <i>Acceptance of short deliveries as full deliveries.</i>	<i>(provide 2 internal controls)</i> <ul style="list-style-type: none"> On arrival of the delivery vehicle, the goods receiving clerk should check the quantity and description of goods delivered against the purchase order and the supplier delivery note. (1½) On arrival of the delivery vehicle, the goods receiving clerk should accept goods short delivered but identify such goods clearly on the delivery notes and purchase order (the quantity actually accepted must be clearly identified). (1½)

Risk	Internal control(s)
<p>C</p> <p><i>Acceptance of items not ordered.</i></p>	<p><i>(provide 2 internal controls)</i></p> <ul style="list-style-type: none"> • On arrival of the delivery vehicle, the goods receiving clerk should check the quantity and description of goods delivered against the purchase order and the supplier delivery note. (1½) • On arrival of the delivery vehicle, the goods receiving clerk should reject all incorrect deliveries and clearly identify rejections on both copies of the delivery note and purchase order. (1½)
<p>D</p> <p><i>Theft by employees or outside parties, e.g. collusion with supplier delivery personnel.</i></p>	<p><i>(provide 2 internal controls)</i></p> <ul style="list-style-type: none"> • There should be a designated goods receiving section which should be physically secured and access controlled. (1½) • On arrival of the delivery vehicle, goods should be offloaded in the presence of a goods receiving clerk who should sign the supplier delivery note. (1½)
<p>E</p> <p><i>Recording of incorrect amounts arising from incorrect purchase invoices where the quantity, quality or type of goods are not as ordered or received.</i></p>	<p><i>(provide 1 internal control)</i></p> <ul style="list-style-type: none"> • The purchase invoices received from the supplier should be matched to the corresponding goods received note, delivery note and purchase order for quantity and description of goods. (1½)
<p>F</p> <p><i>The raising of fictitious purchases / creditors by the introduction of invoices which are for goods never ordered or received by the company.</i></p>	<p><i>(provide 3 internal controls)</i></p> <ul style="list-style-type: none"> • The purchase invoices received from the supplier should be matched to the corresponding goods received note, delivery note and purchase order for quantity and description of goods. (1½) • The purchase invoices received from the supplier should be reviewed to confirm that the amounts on the invoice have been allocated to the correct account e.g. inventory, consumables, stationery. (1½) • When a requisition is made out to initiate an order, the account to which the purchase must be allocated in the purchase journal should be selected from the “official list of accounts” and entered onto the requisition and then transferred to the order. To ensure the clerk responsible for the allocation of the purchase will know which account to allocate it to. (1½)

Risk	Internal control(s)
G <i>Delays, misallocation and posting errors when entering details into accounting records resulting in reconciliation problems and failure to make use of favourable settlement terms.</i>	<p><i>(provide 2 internal controls)</i></p> <ul style="list-style-type: none"> • The purchase invoices received from the supplier should be reviewed to confirm that the amounts on the invoice have been allocated to the correct account e.g. inventory, consumables, stationery. (1½) • When a requisition is made out to initiate an order, the account to which the purchase must be allocated in the purchase journal should be selected from the “official list of accounts” and entered onto the requisition and then transferred to the order. To ensure the clerk responsible for the allocation of the purchase will know which account to allocate it to. (1½)

(1 mark for correct presentation in a tabular format)

OTHER ASSESSMENT METHODS

SOLUTION TO THE EXAMINATION PAPER INCLUDED IN TUTORIAL LETTER 101/2018 WHICH SERVES AS A SELF-EVALUATION ASSESSMENT EXERCISE

QUESTION 1

50 Marks

1.1 The requirements of sound corporate governance pertaining to the board of directors and board committees

Reference: The King IV Report (2016:43-73)

a) Board of directors: composition and appointments

1. F Plaster, the chair of the board, is an independent, non-executive director, as required by the King IV Report. (Principle 7 point 31). (1½)
2. The CEO, M Bricks, is not the chair of the board of directors, which is in accordance with principle 7 point 34. (1½)
3. The board should comprise a balance of power with a majority of non-executive directors. The board has four executive directors and four non-executive directors and the majority of directors are not non-executive. Therefore, they do not comply with principle 2.18. (1½)
4. The majority of the non-executive directors should be independent. Of the four non-executive directors, only two are independent – F Plaster and G Tiles. Therefore, the majority are not independent and they not comply with principle 7 point 8. (1½).
5. A chief executive officer (CEO) and at least one other executive director should be appointed to the Board (principle 7 point 9). They do have a CEO and other executive directors appointed to the board and therefore do comply with the principle. (1½)

6. For the board of directors to objectively and effectively discharge its governance role and responsibilities, it should be comprised of individuals with the appropriate balance of relevant knowledge, skills, experience diversity and independence (principle 7 point 6). From the composition of the board it would appear that the directors have the necessary qualifications and experience required by the King IV Report. (1½)

(Max 6 marks for this section)

b) Risk committee: composition and appointments

1. The risk committee has five members and complies with the requirements of principle 8, point 46 of three members. (1½)
2. Principle 8, point 45 requires that the board of directors should ensure that each committee, as a whole, has the necessary knowledge, skills, experience and capacity to execute its duties effectively. H Concre, the Risk Director, and L Buildt, a CA (SA) has the necessary skills and experience and they comply with the principle. (1½)
3. The risk committee has executive and non-executive directors as members. This is in compliance with principle 8, point 64. (1½)
4. The risk committee should have a majority of non-executive directors as members, principle 8, point 64. Three of the five members are non-executive directors; therefore, they comply with the principle. (1½)

(Max of 4½ marks for this section)

c) Company secretary

1. Principle 10 point 91, state that for some companies the appointment of a company secretary is a statutory requirement to provide professional corporate governance. The Companies Act no 71 of 2008, section 86(1) state that a public company must appoint a company secretary. As CGC Limited is a public company, the appointment of a company secretary is statutory. CGC Limited do not comply with the recommendations of the King IV Report, or the statutory requirements of the Companies Act, as no company secretary has been appointed. W Gable is only acting as company secretary. (1½)
2. The company secretary should maintain an arms-length relationship with the board as far as reasonably possible (principle 10 point 96). W Gable, the IT director, does not maintain an arms-length relationship with the board. (1½)
3. The company secretary should not be a member of the board of directors (principle 10 point 96). W Gable is the IT director and therefore part of the board. They do not comply. (1½)
4. Since W Gable is the IT director, it is doubtful whether he has the necessary competence, gravitas and objectivity and objectivity to provide the board with independent guidance and support as a company secretary as required by principle 2.21. Therefore, the company does not comply with the requirements of the King IV Report. (1½)

(Max of 4½ marks for this section)

(1 mark for presenting the answer under the correct headings)

Comments

You were required to comment on compliance and non-compliance. Therefore you only had to identify compliance or non-compliance and include brief explanations; you did not need to give the principle of the King IV Report. The memorandum includes the principle for reference purposes. Remember, when answering a corporate governance question you must include the theory, application and conclusion in respect of each statement.

1.2 Eligibility of M Bricks and G Tiles as members of the audit committee

Reference: The King IV Report (2016: 55-56)

M Bricks: No he is not eligible, because he is the CEO of the company and an executive director. All the members of the audit committee should be independent, non-executive directors (principle 8 point 56). (1½)

G Tiles: Yes, he is eligible because he is a non-executive, independent director. Therefore, he is eligible to be a member of the audit committee. (1½)

Comments

To be able to answer this question you had to know the requirements for membership of the audit committee.

1.3 Requests for the services of the Internal Audit Department

Reference: The King IV Report (2016: 68-70)

Function number	Should the function be performed Yes/No	Brief reason
1	Yes (½)	The Internal Audit Department should assist the board in analysing and evaluating business processes and associated controls systematically. (1)
2	No (½)	This is an operational activity and should not form part of the functions of the internal audit. (1)
3	No (½)	Internal Audit is not responsible for routine asset safeguarding procedures; and the review of the fixed asset register should be performed by the financial manager on a regular basis. (1)
4	Yes (½)	Part of Internal Audit's scope of work should be to assist in monitoring the company's compliance with laws and regulations. This assignment requires the Internal Audit Department to evaluate the company's responses to the risk of failing to comply with laws and regulations. (1)

(1½ mark for presenting answer in table format)

Comments

Refer to principle 15 points 48-61 of the King IV Report where the key responsibilities of the Internal Audit Department are covered.

1.4 General physical access controls to prevent access to the computer on which the company's bank account software is loaded

Reference: Jackson & Stent (2016:8/17-8/18)

1. The building should have a dedicated room, in which all the equipment that supports the system is kept, for example the CPU and servers. (1½)
2. Only a limited number of personnel should be allowed access to the data centre. (1½)
3. Entry to the data centre by company personnel other than IT personnel should be controlled; for example, visitors should make an appointment before visiting the data centre; and visitors should be escorted by security/IT personnel. (1½)
4. Physical entry to the data centre (dedicated room) should be controlled:
 - Only individuals who need access to the data centre should be able to gain entry. (1½)
 - Access points should be limited to one. (1½)
 - Access should be through a door which is kept locked. (1½)
 - The locking device should be de-activated only by swiping a card, entering PIN number or scanning biometric data. (1½)
 - The entry/exit point should be kept under surveillance with closed circuit TV. (1½)
5. Remote workstations/terminals should be controlled:
 - Terminals should be locked and secured to the desk. (1½)
 - Terminals should be placed where they are visible, but not close to a window. (1½)
 - Offices should be locked at night and over weekends. (1½)
6. Data cables should be protected to prevent tapping as a means of accessing the system. (1½)

(1½ for each valid internal control to the maximum of 10½ marks)
(½ mark for correct presentation)

Comments

General physical access controls can be implemented in any of the business cycles to prevent unauthorised entry/access. You need to study these controls only once and then you would be able to apply them to any scenario.

1.5 Password control to prevent unauthorised access to the company's bank account

Reference: Jackson & Stent (2016:8/20)

1. Passwords should be unique to each individual. (1½)
2. Passwords should consist of at least six characters; and they should be random not obvious and a mix of letters, numbers, upper/lower case and symbols. (1½)
3. Passwords/user-ID's for terminated or transferred personnel should be removed/disabled at the time of termination or transfer. (1½)

4. Passwords should be changed regularly and users should be forced by the system to change their passwords. (1½)
5. The first time a new employee accesses the system, he/she should be prompted to change his/her initial password. (1½)
6. Passwords should not be displayed on PCs at any time, printed on reports or logged in transaction logs. (1½)
7. Password files should be subject to strict access controls to protect them from unauthorised read and write access. (1½)
8. Personnel should be prohibited from disclosing their passwords to others and subjected to disciplinary measures should they do so. (1½)
9. Passwords should be changed if confidentiality has been violated, or violation is expected. (1½)
10. Passwords should not be obvious – for example birthdays, names or names spelt backwards. (1½)
11. Two passwords from two separate personnel should be required to gain access to the bank account. (1½)
12. The passwords should only be valid and accepted by the system during company business hours. (1½)
13. Failed password login attempts should be logged and investigated. (1½)
14. Terminal shutdown should occur after three unsuccessful attempts to access the bank account. (1½)

(1½ for each valid control to the max of 12 marks)
(½ mark for correct presentation)

Comments

Password controls are important to any computerised environment and can be applied to any business cycle.

QUESTION 2

50 Marks

2.1 Internal controls relating to ordering goods in the acquisitions and payments cycle

Reference: Jackson & Stent (2016:11/9)

1. Order clerks should not place an order without receiving an authorised requisition/ approval process which should be cross referenced to the order. (1½)
2. Prior to the requisition being made out, store personnel should confirm that the goods are really needed especially where existing order quantities are used as the basis for the requisition. (1½)

Before the order is placed, a supervisor/senior buyer should:

3. Check the order against the requisition for accuracy and authorisation. (1½)
4. Review the order for suitability of supplier; reasonableness of price and quantity; and the nature of goods being ordered. (Are these items being sold by the company?) (1½)
5. The ordering department should file requisitions sequentially and review the files for requisitions that have not been cross referenced to an order. (1½)
6. Requisition files that have not been cross referenced to orders should be reviewed frequently. (1½)
7. The company should preferably have an approved supplier list the buyer should refer to when ordering. (1½)
8. Before a supplier is approved, senior personnel should evaluate the company carefully in respect of its reliability and the quality and price of its goods. The reputation of supplier should be scrutinised. (1½)
9. If the company does not have approved suppliers, the buyer should seek quotes/ compare prices of a number of suppliers before placing an order. (1½)
10. The buyer should contact the supplier to confirm availability and delivery dates. (1½)
11. A copy of the order should be filed sequentially; and the file should be sequenced checked and frequently cross referenced to goods received notes to confirm that goods ordered have been received. (1½)
12. Alternatively, the pending file of purchase order forms in the receiving bay can be reviewed for orders which have been long outstanding. (1½)
13. Blank order forms should be subject to sound stationery controls. (1½)

(1½ for each valid control to the max of 10½ marks)
(½ mark for correct presentation)

Comments

In the examination, identify which business cycle is described in the scenario; which function in the business cycle is described; and whether you are required to describe risks, internal controls or weaknesses.

2.2 Limitations of internal control

Reference: Jackson & Stent (2016:5/4-5/5)

- The potential of human error due to carelessness, distraction, mistakes of judgment and the misinterpretation of instructions/inexperienced staff. (1)
- The possible circumvention of internal controls through the collusion of a member of management, or an employee, with parties outside or inside the company. (1)
- The possibility that a person responsible for exercising an internal control could abuse this responsibility; for example, a member of management overriding an internal control. (1)
- Management's usual requirement that the cost of internal control does not exceed the expected benefit to be derived. (1)
- The tendency of directing internal controls at routine transactions rather than non-routine transactions. (1)
- The possibility of control procedures becoming inadequate due to changes in conditions; therefore, compliance with procedures may become inefficient. (1)

(1 for each valid limitation to max of 4 marks)

Comments

There are six limitations to internal control. To be able to answer a theory question or an application question in the examination, you should know what these limitations are and should understand why they have been identified as limitations.

2.3 Procedures for conducting a monthly inventory count

Reference: Jackson & Stent (2016:12/12-12/13)

1. The count staff should be divided into teams of two, with one member of the team being completely independent of all aspects of inventory. (1½)
2. All teams should be given a floor plan of the warehouse that clearly demarcates the inventory locations for which they are to be held accountable. (1½)
3. All inventory items should be counted twice. (1) One of the following methods could be followed:
 - One member of a team counts and the other records, swapping roles thereafter and performing a second count in the same section to which they have been assigned. (½)
 - Count teams complete their first counts, return their inventory sheets to the count controller and sign for the inventory sheets of another section, thereby doing their second counts on a section that has already been counted by another count team. (½)
4. The counters must mark the items neatly when counting the items. (1½)

5. When count teams identify damaged inventory the items must be marked as such on the inventory sheets. (1½)
 6. The contents of boxes where the packaging appears to have been tampered with, should be counted and the details noted on the inventory sheet. (1½)
 7. A few boxes in each section should be selected at random and the contents should be compared with the description on the label to confirm that the contents have not been changed/removed. Then the seal should be replaced. (1½)
 8. The count controller (and assistants) should:
 - Walk through the warehouse once the count is completed and make sure that all items have been marked twice. (1½) / Random checks. (1½)
 - Examine the inventory sheets to make sure that first and second counts are the same and agree with the quantities recorded on the perpetual inventory system; if there is one. (1½)
 - Instruct the count teams responsible for sections where discrepancies are identified to recount the inventory items in question. (1½)
 9. The count controller should obtain the numbers of the last goods received note, invoice, delivery note and goods returned note used up to the date of the inventory count. (1½)
 10. No despatches of inventory should take place on the date of the inventory count. (1½)
 11. Any inventory received after the count has begun should be stored separately in the receiving bay, until the count is completed and must not be put into the stores. This inventory must be counted and added to the inventory sheets after the count is complete. (1½)
 12. The counters responsible for the count sheets should draw lines through the blank spaces on all inventory sheets, and sign each count sheet and all the alterations. (1½)
 13. The inventory controller should check that the procedure has been carried out and should sequence test the inventory sheets to ensure that all sheets are present. (1½)
 14. Variations should be counted again and authorised before adjusting the records. (1½)
- (1½ marks for each valid point to the max of 18 marks)**
(½ mark for a correct presentation)

Comments

Internal controls and procedures that should be in place during the year-end inventory count. These internal controls are just as important as those that should be in place as part of the planning and preparation for the count. If the count is not properly planned and communicated, there is a very good possibility that the actual count will not be effective.

2.4 Internal controls that management should design and implement to ensure that only valid new employees are added to the masterfile and that only valid changes are made to the employee masterfile.

Reference: Jackson & Stent (2016: 13/16 – 13/18)

1. The details of each employee to be updated on the employee masterfile, should be recorded on a hardcopy masterfile amendment form (MAF). (1½)
2. MAFs should be pre-printed sequenced (1½) and designed in terms of sound document design principles. (1½)
3. The MAF should be signed by two senior employees (e.g. the human resource manager and factory manager) (1) after checking the details against the supporting documentation. (½)
4. Write access to the employee masterfile should be restricted to a specific member of the human resource section (1) through user IDs and passwords. (½)
5. All masterfile amendments should be automatically logged by the system on sequenced logs (1), and there should be no write access to the logs. (½)
6. In order to enhance the accuracy and completeness of the keying in of the masterfile amendments and to detect invalid conditions, screen aids and program (automated) checks should be implemented (1½).
7. Screen formatting and related features:
 - Minimum keying in of information. (1½)
 - A drop-down list for allocating an employee to a cost centre, department or section. (1½)
 - Screen formatting, screen looks like MAF, screen dialogue. (1½)

(Limited to 1½ marks)
8. Programme checks: changing the data of an existing employee:
 - No write access, for example to identity number field, income tax number (1½)
 - Verification/matching checks of employee number (incorrect number, no amendment). (1½)
 - Minimum entry for example employee number brings up all the necessary data. (1½)

(Limited to 1½ marks)
9. The logs of masterfile amendments should be reviewed by someone independent of the employees who authorised the amendment, for example, the accountant. (1½)
10. The sequence of logs themselves should be checked and any missing logs should be followed up by a senior person, for example a human resource manager. (1½)
11. Each employee amendment on the log should be checked to confirm that it is supported by a properly authorised MAF; and that the details entered are correct. (1½)

12. The MAFs should be sequence checked against the log to confirm that all MAFs have been entered. (1½)

(1½ marks for each valid point to the max of 9 marks)
(½ mark for correct presentation)

Comments

Internal controls to prevent unauthorised changes to the masterfile are very important to any organisation and applicable to all the business cycles. You only need to study these controls once and then you would be able to apply them to any business cycle.

2.5 Weakness in credit sales

Reference: Jackson & Stent (2016: 10/10 – 10/13)

Function	Weaknesses
1	<p>1.1 The order clerk does not check the order against the approved customer list before accepting the order.</p> <p>1.2 The ISO is not compared to the order by an independent employee/supervisor to ensure accuracy.</p> <p>1.3 The order clerk does not sign the ISO to confirm performance of the above procedure.</p> <p>1.4 The credit limit is not checked before the order is approved.</p> <p>Limited to one weaknesses</p>
2	<p>2.1 The warehouse clerk does not initial the picking slip for each item that is picked.</p> <p>2.2 There is no supervisor/warehouse foreman who performs checks to ensure that picked goods are supported by picking slips.</p> <p>2.3 The warehouse clerk does not compare the goods to picking slips before sending it to dispatch.</p> <p>2.4 The warehouse clerk does not prepare delivery notes before sending them to dispatch.</p> <p>Limited to one weakness</p>
3	<p>3.1 The dispatch clerk does not compare the goods to the picking slip and delivery note.</p> <p>3.2 Delivery staff do not supervise the loading of the delivery vehicle.</p> <p>3.3 There is no security check at the gate where the goods are compared to the delivery note – the vehicle leaves directly for delivery.</p> <p>Limited to one weakness</p>

Function	Weaknesses
4	<p>4.1 The customers are not provided with copies of delivery notes to sign and copy to retain when the goods are delivered.</p> <p>4.2 The invoice is generated before a customer-signed delivery note is received.</p> <p>Limited to one weakness</p>

(1½ for each valid weakness to a maximum of 6 marks)
(1 mark for communication, logic, structure and presentation of table)

Comments

In order to point out the weaknesses, you should be able to identify internal controls that could be implemented to mitigate the risks associated with a specific function in a business cycle.