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**October November 2015**

**AUI3702**

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- 1.10 A

**Question 2**

2.1

- Objective & Scope of audit
- responsibilities of the auditors
- responsibilities of management
- competence of audit team
- ability to meet deadlines

2.2

Weakness	Controls
-orders are not sequent numbered	-all order should be sequentially numbered.
-orders may not be acted upon timorously or at all, resulting in a loss of sales and customer goodwill	-for phone orders, order clerk to *request customers account numbers, order reference number and confirm an order details.
-in accurate or duplicate order details may be recorded which will result in incorrect or duplicate deliverers, returns and customer dissatisfaction	-attach customer order to 150 and have second staff member to cross check details.
- no credit checks are done on unregistered customers	-credit checks should be done by credit manager on unretired customers before the order is processed
-orders can be placed for an item that is not in stock and	-before an order is accepted the ordering clerks

notify the customer	should confirm or check the availability of stock to avoid customers dissatisfaction
-the delivery note is not pre-numbered and is not vouched against picking slip	-a delivery note should be pre-numbered and valued against picking slip for accuracy
-the truck driver may be given empty sealed boxes to deliver	- The truck driver should count the goods and sign as evidence of acceptance.
-the security guards allow trucks to go in and out without checking what are carrying	-security guards should also count what is in the truck and sign as evidence of inspection or review
-the customer does not sign the delivery note as evidence of goods	-the customers Should sign the delivery note as evidence of delivery of goods.

**Question 3**

3.1- random-systematic – block

-the method to be used is random each and every unit have an equal chance of been selected.

3.2- recede on the sample unit, which are the items that you are drawing your sample from,

In this case goods received note

-determine the population size : 500 goods received notes'

-refine the term "error" which will be the attribute you will be looking for when performing the tests.

-define/decide on the confidence level e.g. 90%

-decide on the precision limits e.g.  $\pm 4\%$

-determine the sample size by using a formula e.g. in this case its to items to be randomly selected

3.3.1 inventory turn over cost of sales/inventory	2015	2014
	<u>15187</u>	<u>16130</u>
	11 08	1306
-how many times cost of sales cover inventory	13.7times	12.4times
-it has increased positively		
From 12.4times to 13.7times in 2014 to 2015, respectively		
3.3.2 gross profit =gp/sales		
	<u>14720-15187</u>	<u>21450-16130</u>
	14720 x 100	21450
	=22.99%	=24.508%

It has decreased negatively from 24.80% in 2014 to 22.99% in 2015

#### **QUESTION 4**

4.1 –objective

- audit procedures
- record of work done
- tick marks
- conclusion
- prepared by &date
- received by &date
- name of the client

4.2 The working paper does not show that

- who prepared
- who received
- A finding form was not created to show the no-compliance with Audit standards.
- management responses do not solve the problem
- recommendations should be made on either to employer more employee to available approval for over time.

#### **QUESTION 5**

5.1

<b>Risk</b>	<b>Audit procedure</b>
-Unauthorized orders may be placed	-inspect a sample of orders place for evidence of authorization from relevant line managers
-the cheapest quote might not be select fraudulently	-select a sample of transaction and confirm if the cheapest quote was select, follow up with management on exceptions
-there is risk that goods delivered might have breakages	-on a surprise bases, observe if the receiving clerk,

or not enough	inspect the good for breakages and count them to ensure they are accurate or enough
-the receiving clerk might sign the GRN for evidence of acceptance	-inspect the goods received note for receiving clerk signature for evidence of acceptance
-the receiving clerk might not vouch the order & GRN or income at order might be delivered	-inspect the order and GRN for evidence of comparing the detail, quantity and amount.
--invoice might be incorrectly including goods which were returned or incorrectly calculated	-obtain a sample of invoice that were recorded and recalculate and confirm is it was correctly accounted for
-Payment to creditors may be made without approval by two designated individual	-For a sample of payment made, inspect for evidence of approval the signatures of two designated individuals.
-Supporting documents might not be stamp-conceiled once the cheques are prepared ,resulting in duplicated payments	-For a sample of payment made, inspect if supporting documents were stamp-cancelled by two designated individuals for evidence of payments.

**Question 1**

- 1.1 C
- 1.2 B
- 1.3 B
- 1.4 C
- 1.5 C
- 1.6 A
- 1.7 A
- 1.8 C
- 1.9 C
- 1.10 C

**Question 2**

2.1 Combined assurance is a manner in which the company sets itself up to adequately address the significant risk which the company faces .it can be provided by

- Internal assurance providers' e.g. internal audit, finance function
- external assurance providers e.g. external audit, industrial regulators
- Management.

2.2-Try to enter an employee in the master file with a valid income tax number and without identity number and confirm if the entry is not going to be successful.

- In the master file using chats do a walk through the whole population to indentify if they is no entry with an empty income tax number and identify number held, if so follow up with management.
- Select a sample of program change form and inspect the signature of CAE for evidence of approval
- Select a sample of employees and ask them to gain access to the company local area network using correct user ID and wrong password and confirm if they are restricted access.
- Try to gain access to the company LAN using fictions user ID and password and confirm if access is denied.

-On a surprise bases, visit the company to observe if the factory manager is doing on screen report and files it is evidence of review –Select a sample of employees from the company and some should be late and some should be absent.

-Follow through to the on screen print out and confirm if all the employees in your sample who were absent and late from work were included in the report with their names and sections which they are designated.

-On month end select a sample of employees

-Try to load their wages and salaries on a different terminal and approved by two authorized personnel and confirm if it is unsuccessful.

-Try to load their wages and salaries on correct one terminal and approved by one authorized personnel and confirm if it unsuccessful.

-Try to load their wages and salaries on a correct terminal and approved by two authorized personnel and confirm if it is successful.

-Select a sample of employees who scored above 60%and below 60%in the computer literacy test

Obtain their files and inspect if they have not passed computer course for those who scored above 60% in the computer course for those who scored less than 60%in the computer literacy test.

-Select a sample of log of amendments to employees' master file and inspect for HR manager signature as evidence of review

Obtain a sample of monthly director's minutes and inspect the details discussed.



### Question 3

3.1

- Control environment
- Risk assessment
- Information system
- Control activities
- Monitoring of control

3.2

<b>Weakness</b>	<b>3.3 Controls</b>
-The request of stock needed is not authorized by senior personnel	-Ordering clerk should not place an order without receiving an authorized requisition
-The ordering form is not pre numbered	-The ordering form should be pre –numbered

<p>-before the order is placed the buyer does not check the order to the requisition for accuracy and authority, reasonableness of price and quantity and nature of goods being ordered</p>	<p>-Before placing an order the buyer should check the order to the requisition for accuracy and authority, reasonableness of price, quantity and description of goods ordered.</p>
<p>-they is no approved supplier list to which the buyer should refer when ordering.</p>	<p>-they should be an approved supplier list to which the buyer should refer to when ordering.</p>
<p>-the supplier can access the receiving function easily through parking</p>	<p>-goods receiving section should be physically secured and access controlled.</p>
<p>-no segregation of duties as the ordering clerk can place an order and receives the goods</p>	<p>-they should be segregation of duties a person who place orders should be different from a person who receives the goods</p>

<p>-they warehouse clerk does not compare the physical goods to the goods received note and acknowledge receipt by signing the GRN and any differences reported to stores controller</p>	<p>-the warehouse clerk should vouch physical goods to the GRN and report any differences to stores controllers on transfer of goods.</p>
<p>-they is no monthly reconciliation for creditor's statement against supporting documentation.</p>	<p>-they should be monthly reconciliation for creditor's statement against supporting documents.</p>

**Question 4**

4.1-materiality

-the risk that the non-discovery of an error will have a material influence on the findings of the auditor.

-the purpose of the test

-the effectiveness of the system of internal control

4.4 Inventory turnover rate = cost of sales

Average inventory

$$=40\ 600/22600$$

$$=1.80\ \text{times}$$

-cost of sales cover inventory 1.80 times it is

Good if it increase.

-it has increased from 1.12 times in 2015 to 1.80 times 2016

#### 4.5 Average collection period of debtors

$$= \frac{\text{debtors}}{\text{Credit sales}} \times 365$$

Credit sales

$$= \frac{35\,650}{62\,500} \times 365$$

62500

$$= 208.2 \text{ days}$$

- It has increased negatively from 194.1 days in 2015 to 208.2 days in 2016
- 4.6 Gross profit ration =  $\frac{\text{Gross profit}}{\text{Sales}} \times 100$

$$= \frac{70\,500 - 40\,600}{70\,500} \times 100$$

$$= 42.41\%$$

-it has deteriorated from 49.68% in 2015 to 42.41% in 2016

### **Question 5**

5.1 – providing more supervision

- incorporating an element of unpredictability
- maintain professional skepticism
- Assign more experienced staff

5.2 – completeness

-Cut-of

-occurrence

### 5.3 risks

-there is risk that guest might leave the hotel without paying the full bill as transaction entered after 22:00hrs are added in the next night shift and guest leave/check out at 11:00am

-there is risk that the guest may provide a wrong room number which will result in incorrect allocation of cost

-the guest can enjoy hotel services without enough money to pay the expenses.

### 5.4 controls

-transactions should be added immediately when the bill is received, to avoid non-payment.

-before the expense is signed by the guest to a specific room, the guest should provide the waiter with a room card to avoid wrong allocation of cost

-the hotel should take a deposit when the guest arrives which is refundable if the guest does not exceed the deposit amount.

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**NOV 2016**

**Question 1**

- 1.1 D
- 1.2 C
- 1.3 C
- 1.4 D
- 1.5 A
- 1.6 C
- 1.7 B
- 1.8 C
- 1.9 C
- 1.10 A
- 1.11 D
- 1.12 A
- 1.13 C
- 1.14 A
- 1.15 A
- 1.16 A
- 1.17 C
- 1.18 C
- 1.19 C
- 1.20 B

**QUESTION 2**

2.1- The cash has high chance of being stolen.

- loss of customers who cannot pay in cash but
- loss of customers who cannot pay in cash but require credit
- risk of armed robbery and injury of employees.

2.2-communication and enforcement of integrity and ethical values

- strong ethical culture is important, should communicate a code of ethical behavior.
- commitment to competence

- skills and knowledge as well as the ability to handle pressure can be considerable
  - participation by those charged with governance
  - in terms of King III or IV, IT governance is the overall responsibility of the board and it should provide the required leadership and direction to ensure it achieves, sustains and evidences company's strategic objectivity.
  - IT management's philosophy and operating style
    - This comes down to the attitudes, control awareness and actions of the IT management. Their actions set a tone of the department and as they lead, so will the employees follow.
  - organizational structure and assignment of authority and responsibility
  - clear reporting lines & segregation of duties
  - human resource policies and practices
  - proper recruiting policies & immediate exclusion from computer facilities if an employee is dismissed
- 2.3-physical safe guards should be in place to protect cash registers and employees and to prevent theft.
- an independent record of every sale. Must be kept
  - a report of record should not be alterable
  - there should be no access to the till roll in the cash register other than to supervisory an independent counter should be restricted to the manager /owner.
  - the independent record should be numerically sequenced so that missing records can be identified
  - cash this should be emptied regularly during the day and taken to a secure area
  - when cash is to be removed from a cash register, the till lane will be closed. The cash draw will be removed by the cashier in the presence of the supervision and taken by the two of them to a secure bank office.
  - the two individuals should then counter the cash,

And reconcile them to the till roll (cash register)

Which will be accessible only to the supervisor and reconciliation should take into account cash float given to the cashier at the start of the shift

-the reconciliation should be recorded on a multi copy,

Pre-printed, sequenced document and should contain information such as date, time till, cashier name, the actual reconciliation showing any "over's" or "under", any replacement comments and the signatures of both parties

-at no stage during the reconciliation exercise, should either of the parties leave the room

-where there is multiple individuals reconciliations it should be consolidated at the end of the day

-the same principles will apply when armed securities removes cash for banking.

-cash should be banked regularly and intact

-a deposit slip should be made out by the supervisor and agreed to the daily cash daily summary.

A second senior staff member should agree the bank deposit slip to the supporting reconciliation and daily summary sheets and sign the documentation

-the cash receipts journal should be written up promptly

-the bookkeeper should regularly inspect the cash receipts journal to confirm that the daily receipts are being banked promptly and completely and that amounts agree with the deposit slips and supporting documentations.

The bookkeeper will also carefully check the monthly bank reconciliation.

All procedures will be acknowledged by signature.

### **Question 3**

3.1 yes I agree because

-the clerical assistant and financial controller does not have user name and password to enable them to enter a journal; hence it will be difficult to trace who process the journal.



-Journals are not pre –numbered

-Management does not perform a review of journal processed and no follow up on exceptions.

- No daily, weekly or monthly reconciliations were performed

-No activity log of unsuccessfully attempts of entry to the module

-Lack of segregation of duties as JERis sent to senior management for approval and is returned back to the employee who originally request the journal before it is sent to clerical assistant to process the journal, there is high chances of adjusting the journal after being approved.

No review is done on the log of journal entries.

There are no access limitations to the filling room to ensure that supporting documents are not going to be misplaced.

3.210 steps in the sampling exercise

Step 1

Determine the objectives of the procedure

-For every journal or JER passed they should be signed supporting document and the journal should be authorized

STEP 2

Determine the procedure to be performed

-Select a sample of entries of Journals and JER and trace to supporting document to ensure that it was authorized.

Step 3

Confirm that the population is appropriate and complete

-The population should be all Journal entries and all JER entries in the general ledger.

Step 4

Refine the units of the population

-The units would be entries in the Journal and JER

-A numbering system identifying each entry would have to be developed

-The units of the population, which are selected for the sample, become the unit of the sample

#### Step 5

Determine the sample size

-The overriding requirement for determining the sample size is whether the sampling risk will be reduced to an acceptable level

-Auditors judgment is required on

-Confidence level –tolerate misstatements

-Rate of deviation -the population size

#### Step 6

Select the sample of journals

-Using different methods which are

(i) Random –every unit must have an equal chance of selection

(ii) Systematic –selecting a random starting point and then selecting every say ,20<sup>th</sup> item

(iii) Haphazard –the auditor attempts to stimulate randomness by avoiding conscious

Bras or predictability and not following a structured technique.

(iv) Block – selection of a block of contagious items from within the population

#### Step 7

Perform the audit procedures

-as determined in step 2

#### STEP 8

Analyze the nature and cause of deviations and misstatements

-analyze sample result of journal and JER testing for exception and may provide evidence that further procedures are necessary or that risk should be reassessed

Step 9

Project the sample result over the population

-the auditor will calculate the actual number of misstatements in the sample

-Statistical method-applies to the formula or table so that it represents 100% of population

-Non-statistical method-projecting sample over population using proportioned method

Step 10

Evaluate

-once the sample result for Journal and JER is projected the auditor should conclude her level of confidence and precision if these have been set.

3.3 Yes, fraudulent journals have been passed since more misstatements were noticed rather than what has been expected.

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AUI3702 JUNE 2017

1.1 C

1.2 C

1.3 B

1.4 B

1.5 D

1.6 B

1.7 C

1.8 B

1.9 C

1.10 D

1.11 D

1.12 C

1.13 B

1.14 C

1.15 D

1.16 A

1.17 A

1.18 D

1.19 A

1.20 A

## QUESTION 2

### 2.1

-Decide on the sample unit, which are the items that you are drawing your sample from, in this case wages.

-Determine the population size: 400 employees

-Define the term “ error ” which will be the attribute you will be looking for when performing the tests.

-Define/ decide on the confidence level eg 95%

-Decide on the maximum acceptable error rate eg 5%

-Decide on the precision limits eg +/-4%

-Determine the sample size using a formula

### 2.2

The population will be all wage earners on the payroll (master file) so that we will be able to identify fictitious workers, validity and accuracy.

#### 2.3.1

- Inspect the documentation in the employees personal files e.g identity details , SARS, tax reference number, bank account numbers
- Perform a positive physical identification of the employee where possible, this would involve visiting the employee at his place of work during working hours and inspecting his personal identity document or staff identity tag
- Enquire of senior personnel to confirm (in writing) that specified individuals are employed in their section or division
- Inspect returns t outside entities for the inclusion of employees selected in the sample e.g PAYE Reconciliation submitted to SARS
- Use audit software to scan the employee master file for “error conditions” which may indicate fictitious employees e.g
  - Duplicated or missing identity numbers
  - Duplicated or missing tax reference numbers
  - Duplicated bank accounts

- Duplicated employee number
- By discussion with the staff in the personnel section and the examination of the employment and dismissal/resignation, confirm that employees are put onto or removed from the master file on the correct date. (If an employee leaves but is left on the payroll, he is in effect a fictitious employee)

### 2.3.2

- Confirm that the hourly wage rate used for the employee is in accordance with the wage rate for that level of employee and is authorised in terms of a notification in the employees personal file
- Inspect any overtime reports signed by the foreman for the period selected and confirm that the rate used for overtime complied with company policy and the labour requirements
- Compare all deductions e.g PAYE, UIF and confirm that the correct amounts were deducted
- Confirm that no wage was paid for absent and employees who send sick leave
- Test the costs and arithmetic accuracy of the payroll as appropriate

### Question 3

#### 1.1 Despatch from central warehouse to stores

- No movement of inventory should take place without an authorising document e.g picking slip material requisition
- No movement of inventory should take place without the movement being recorded e.g delivery note and material issue note
- Whenever there is a transfer of inventory from central warehouse to stores, both the deliver and the receiver should acknowledge the transfer by signing the transfer document after having checked the description quality and the quality of the items being transferred against the source documents
- Documents should be sequenced and filled numerically
- Documents should be sequenced, checked and missing documents investigated

#### 3.1.2 Physical control over inventory at stores

- Minimum entry and exit points
- Swipe cards, keypads, turnstiles, gate control, biometric readers, security guards on all entry and exit points

- Restricted entry e.g buying clerks not permitted to enter stores unaccompanied, only production employees allowed in production facility
- Secure buildings e.g minimum number of windows, solid structure
- Environmental areas to be dry, clean, neatly packed, pest free and temperature controlled where necessary
- Surveillance-cameras/ video recording over production, receiving and dispatch areas

### 3.1.3 The down-payment scheme

- The customer should deposit a stipulated percentage of the money e.g 20%
- The customer should leave the phone number and address so that they will be notified before due date if payment is not finished e.g 6 months
- The customer should sign the receipt for deposit which states all terms and conditions of down-payment
- The shoes should be removed from display and put on a separate section in the storeroom for down-payment
- The down-payments should be pre-numbered
- The shoes should be returned to the display area when down-payment period expires and the customer has not yet finished paying the down-payment

## Question 4

### 4.1 Weakness

### 4.2 Business Risk

- Orders are not pre-numbered
- No stock availability. Check before accepting the order
- Duplicated orders may be processed as there is more segregation of duties
- 
- No credit checks are done
- There is no segregation of duties each junior warehouse should have specific

- Orders may not be acted upon timeously or at all, resulting in a loss of sales and customer goodwill
- Orders can be received where there is not enough stock
- Customers will be dissatisfied by getting more than requested goods
- Incorrect quantities may be picked
- A sale will be made to a customer who is not credit worthy that is will not pay, resulting in a loss in the company
- Fictitious orders may be processed

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letters

#### 4.3

- No orders to be accepted if the customer is not an approved customer
- On a regular basis ISOs to be sequence checked and matched to the delivery notes to identify any orders that have not been acted upon
- Where the order is from a prospective customer credit application procedures must be done before the order is filled
- The credit application form must request the customer to provide benefitting details, trade references, income and expense details
- The credit controller must follow-up by contacting trade references and credit bureaux and assessing customer liquidity
- Terms and limits must be set by the credit controller and approved by the financial manager
- Delivery notes and picking slips to be matched and filled numerically