

Question 1:

1.1 A

1.2 B

1.3 A

1.4 B

1.5 A

1.6 C

1.7 B

1.8 B

1.9 D

1.10 D

Question 2:

2.1 Validity: To ensure that only valid purchases are recorded.

Completeness: To ensure that the all the goods received from suppliers are recorded as purchases in the purchase journal.

Valuation: To ensure that the liability in respect of the credit purchase is recorded at the correct value.

Cut-off: To ensure that purchases accounted for in the current period relate only to goods received in the current period.

Audit objective	2.2 Audit procedure
<u>Validity</u> : To ensure that only valid purchases are recorded.	<ul style="list-style-type: none"> • Select a sample of recorded purchases from the purchase journal and inspect the related purchase order for evidence of authorisation. • Inspect the goods received notes for the signature of the store officials acknowledging receipt of the goods.
<u>Completeness</u> : To ensure that all the goods received from suppliers are recorded as purchases in the purchase journal	<ul style="list-style-type: none"> • Identify a selection of outstanding orders and enquire about the follow-up actions performed. • Investigate the follow-up actions and identify evidence of the reasons for the outstanding orders.
<u>Valuation</u> : To ensure that the liability in respect of credit purchases is recorded at the correct value	<ul style="list-style-type: none"> • Analyse the reasonableness of the total creditors' balance owing by reconciling the total amount owed to suppliers to the total credit purchases made in the corresponding period. • Opening balance of creditors for the period tested plus credit purchases for the period tested minus payments and returns for that period
<u>Cut-off</u> : To ensure that purchases accounted for in the current period relate only to goods received in the current period	<ul style="list-style-type: none"> • Enquire from management about the planned procedures to ensure appropriate cut-off and evaluate the adequacy of such procedures. • Ascertain and record in the working papers the last goods received note number at the cut-off date by inspecting the printout on all the goods received notes. Ensure that these purchases have been taken into account in the correct accounting period

2.3 Internal controls are put in place to ensure:

- Adherence to management policies for all aspects of the business
- To safeguard the assets of the company against theft/damage
- The prevention and detection of fraud and error
- The accuracy and completion of accounting records
- The timely preparation of reliable financial and other information necessary to run the business.

The payment of a wage or salary is a transaction, so the relevant assertions which the auditor will address are occurrence, completeness, accuracy, cut-off and classification. The inter control objective is to ensure the following:

Occurrence—Assure that no fictitious salaries were recorded.

Completeness –All salaries and wages paid or payable for this period have been included in the account balance.

Accuracy, cut-off and classification – Amounts paid for salaries and wages and other related data have been recorded appropriately, the payments have been recorded in the correct accounting period and the amounts have been recorded in the proper accounts.

2.4 Mr. Harpic recorded time cards must be validated by the personnel department. Mr. Harpic can record fictitious hours worked.

Mr Domestos`s weekly payroll and error report must be checked and filed by a supervisor, as Mr Domestos can generate fictitious employees or hours worked. The payroll preparation clerk, Mrs Domestos, must be informed of changes to employee master files done by a separate personnel department. Even if it is sent directly to the computer department, as it can lead in a miss calculation/incorrect check by Mrs Domestos.

The wage packets should be made up by two wage department members. Mrs Domestos can take some of the money.

The wage pay-out must be conducted by at least two employees. Mr Duck, who has the sole responsibility of paying the employees, may take some of the money.

Mr Duck, the paymaster, must retain the unclaimed wages and lock them away. He must not give it to Mrs Domestos, as she can take some of these wages.

Question 3:

3.1 Criteria

To identify the criteria applicable in a specific situation you need to include the following elements: the goals, objectives and operating standards that represent what the audited operation needs to accomplish; the quality of the accomplishment.

Condition

This involves the facts as determined by the audit procedures performed by the internal auditor.

Cause

The underlying cause explains why the condition deviates from the criteria.

Effect

The effect must clearly indicate the impact of the deviation from the established criteria.

Recommendation

A corrective course of action that could help to resolve the problem identified should be recommended for management`s consideration.

3.2 Criteria

Perpetual inventory record is required: Inventory records should therefore be updated on a continual basis.

Condition

Inventory records are updated on a haphazard basis – when there is time or once a month.

Cause

The stated policies and procedures of the company have been breached.

Effect

The investment in unneeded material, due to the inaccurate stock figures, is estimated as 10% of monthly purchases.

Recommendation

Staff members responsible should comply with the stated policies and procedures and should maintain stock records as required.

Question 4:

- 4.1 Audit sampling involves the application of audit procedures to less than 100% of the items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.
- 4.2 Audit sample
- 4.3 To produce accurate and relevant findings through sampling, it is very important that the sample represents the population. If the sample is not relatively based on the given population the audit sampling findings would be inaccurate and misstated.
- 4.4 Deviations are a measure which indicates the distribution of values in a population around the average value of that population. It is classified as a sampling risk.

Misstatements are errors/miscalculations made by the auditor during the sampling process. It is classified as a non-sampling risk.
- 4.5 Increase. A higher risk of material misstatement will result in a higher sample size to ensure more accurate findings.
- 4.6 Decrease. Sample size would decrease where there are other substantive procedures aimed at the same objective as these procedures would already increase assurance.
- 4.7 Increase. Sample size will increase if a higher level of assurance or confidence level is required.

Question 5:

- 5.1 The compliance based internal audit checks that the company has complied with its internal controls and legislation. The risk-based approach places more emphasis on internal audit understanding the risks associated with strategic direction of the company and determining whether internal controls, processes and procedures, adequately address these risks. The King III report favours risk based internal audit over compliance based internal audit.
- 5.2 Yes, internal auditing form part of the internal assurance of a company. It assures the accuracy of financial and managerial statements.
- 5.3 Audit committee
- 5.4 False. The act only states that it is compulsory for public companies to be audited.
- 5.5 Section 84 of the companies act requires every public and state owned company must appoint an audit committee. The King III report however recommends that all companies appoint an audit committee to increase the level of assurance and confidence of their controls and legislation.
- 5.6 Perform reviews of the company`s governance process and ethics.
Perform an objective assessment of the adequacy and effectiveness of risk management and internal controls.
Systematically analyzing and evaluating business processes and associated controls.
Provide a source of information regarding fraud, corruption, unethical behaviour and irregularities.
- 5.7 Audit committee
- 5.8 Strong leadership
Command respect for his/her competence and ethical standards.
Be a strong communicator, facilitator, influencer, networker and innovator.

Question 6:

- 6.1 It eliminates risk of cash theft.
It is easier to keep financial record of payments.
- 6.2 True. Wages does not form part of assets. It is an expense and would be shown within the income statement in the financial reports.
- 6.3 Ghost workers
Dummy workers
- 6.4 An employee can't record fictitious hours.
An employee can't record hours for other workers.
An employee can't leave the premises without clocking out.
- 6.5 True. To test if an employee is not factitious, physical verification can be used to ensure that it is the correct employee and that he/she does exist.
- 6.6 False. The assertion that will be used in the physical verification of wage employees is occurrence. Wages is classified under a transaction and the occurrence assertion ensures that transactions have occurred.
- 6.7 It is not fraud, but it is an illegal employment practice.
- 6.8 If auditor suspects there are wages being paid which are not recorded in the payroll record.