



**AUE304S
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**COMPUTER AUDITING AND THE USE OF THE COMPUTER IN PERFORMING
 THE AUDIT PROCESS (AUDITING 304)**

Duration : 2 Hours

100 Marks

EXAMINERS :

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 Use of a non-programmable pocket calculator is permissible.
THIS PAPER CONSISTS OF **NINE (9)** PAGES.

This paper contains the following questions and main topics:

QUESTION	MAIN TOPIC	MARKS
1	Multiple-choice questions	15
2	Various topics	30
3	Tests of control	25
4	General audit software	<u>30</u>
		<u>100</u>

NOTE:

The main purpose of the examination is to assess a candidate's knowledge and ability to apply the reading matter. However, the examiners also take into consideration the candidate's ability to organise and present such knowledge in writing according to an acceptable standard.

[TURN OVER]

QUESTION 1

15 marks

REQUIRED

Select for each subdivision of this question only **one** alternative that you consider to be most appropriate. Answer the subsections of this question in numerical order, as follows:

- 1.1 A
- 1.2 B

(1½ mark per question)

QUESTION 1

1.1 Which one of the following alternatives is **NOT** a description of an audit procedure that an auditor would perform for an auditee using a service provider for data processing?

- A Testing of controls over the time schedule for data processing.
- B Testing of controls over the transmission of data.
- C Testing of general controls at the service provider.
- D Testing of information that is stored at the service provider.

1.2 Select the **most appropriate** alternative to complete the following sentence:

In the application of computer assisted audit techniques on accounts payable files, an auditor can utilise the computer to perform analytical procedures on expenses by ...

- A comparing year to year and month to month figures and printing the deviations between those values.
- B identifying the largest and smallest values.
- C grouping transactions by vendor.
- D selecting monetary unit samples of payments and then vouching each sample item.

[TURN OVER]

- 1.3 Which one of the following alternatives is **NOT** related to a system-based audit approach in a computerised environment?
- A ✓ User controls may be tested through inspection, observation, enquiry, or reperformance.
 - B Significant weaknesses in application controls have a direct impact on the accuracy of the valuation assertion.
 - C ✓ Reliance on general controls is a prerequisite for testing application controls, unless compensatory user controls exist.
 - D ✓ Access to transaction files may be obtained and amounts may be checked for accuracy.
- 1.4 The auditor analyses the increase in inventory from the previous year to the current year together with the increase in purchases. Select the alternative that best describes this audit procedure.
- A Cut-off procedure.
 - B System test.
 - C Analytical procedure.
 - D Test of control.
- 1.5 When auditing a database management system, which one of the following alternatives should the auditor expect to find?
- A Salary particulars of staff members appear in the staff master file as well as in the file in which tax deductions are calculated.
 - B All data is stored on removable storage devices for increased storage security.
 - C A dictionary/directory is kept.
 - D Each data element is used during one computer run only for optimal storage capacity.

1.6 Which of the following statements pertaining to microcomputers is **false**?

- A A characteristic of microcomputers is that linked input is possible but not the performance of linked validation tests.
- B The risk of material misrepresentation in microcomputer environments is decreased through measures such as that only purchased software may be used.
- C The risk of material misrepresentation in microcomputer environments is usually deemed to be high, resulting in substantive procedures being performed at year-end.
- D A characteristic of data processing through microcomputers is that audit trails are sometimes lacking.

1.7 Select the **most appropriate** alternative to complete the following sentence:

The audit approach that an auditor is most likely to follow in a real-time computer system environment, is ...

- A a control measure test approach that emphasises security infrastructure.
- B a control measure test approach that emphasises pre-processing authorisation.
- C a control measure test approach that emphasises the reprocessing of transactions.
- D a control measure test approach that emphasises control totals and reconciliations.

1.8 Which one of the following aspects should a business consider **before** drawing up an agreement to outsource data processing to a service provider?

- A The content and format of output.
- B The service provider's membership of professional bodies.
- C The time schedule of data processing.
- D The retrieval of records in the case of incidental loss.

[TURN OVER]

1.9 Which **one** of the following uses of a microcomputer **cannot** be regarded as an auditing aid?

- A ✓ The use of a computer model to check the calculation of tax during the completion phase of an audit.
- B ✓ The use of expert systems to select and recommend audit procedures.
- C ✓ The generation of debit notes based on the time sheets of the audit managers of an auditing firm.
- D ✓ The generation of audit programmes based on the evaluation of the control environment of an auditee.

1.10 In which **one** of the following cases is the direction of testing from the source documents to the accounting records?

- A The audit objective of completeness must be achieved.
- B The audit objective of existence must be achieved.
- C The primary risk is the overstatement of assets.
- D The primary risk is the overstatement of liabilities.

QUESTION 2

30 marks

2.1 You are an audit manager at a large auditing firm. During the risk assessment of an auditee you discover the following non-related cases:

1. The firm is involved in diamond mining. *IRP TOC*
2. After every shift workers are searched by means of a tracing system to determine whether they are in possession of any diamonds. *CRB TOC*
3. The firm trades the diamonds only on the international diamond exchange. *CRB TOC*
4. The sorting plant where diamonds are extracted from the ore is monitored through closed circuit television. *Subs*
5. If there were any uncertainty about the classification of the purity of the diamonds, these are kept in a vault under supervision of the quality controller. *CRB Sub*

[TURN OVER]

REQUIRED

Marks

Indicate for each of the aforementioned cases what the effect on inherent and control risk is, as well as the type of audit procedure that should be performed to maintain or lessen detection risk. Present your answer in the same format as the example given below.

(10)

EXAMPLE:

1. Cyber hackers have gained access to the passwords that allow access to a finance company's loan approval facility.

Number	Inherent risk (½ mark each)	Control risk (½ mark each)	Type of audit procedure (1 mark each)
1	N/A	Higher	Substantive procedure

- 2.2 One of the characteristics of a computerised working paper package used by an auditor is that it should have the capability to electronically transfer the trial balance from the auditee's system to the computerised working paper program in order to facilitate the consolidation of group accounts.

REQUIRED

Marks

Describe **six (6)** other characteristics that computerised working paper programs should possess to be of use to an auditor.

(9)

- 2.3 You are the auditor of a company that uses electronic fund transfers (EFTs) to make payments directly into its suppliers' bank accounts. Editing tests such as screen tests and control figures are used during such payments to ensure accuracy.

REQUIRED

Marks

Describe **four (4) additional** editing tests that may be used when making payments by means of EFTs. Limit your answer to the **accuracy** of a payment.

(6)

[TURN OVER]

2.4 Your audit firm considers using generalised audit software to perform certain auditing tasks on various auditees' financial systems.

REQUIRED

Adv = TMSOVERK

Marks

List **five (5)** advantages related to the use of generalised audit software (GAS).

(5)

QUESTION 3

25 marks

You are the auditor of Tigress Limited. During the planning phase of the audit you collected information on internal controls. The following represent descriptions of internal controls on which management rely to prevent and detect errors that can cause misrepresentations in the financial statements:

1. Only computer software that is "recognised" by the company's operating system is permitted on the company's computers that are linked to the network. However, the network operator who authorises every network connection can enter an authorisation code to allow access to programs that are blocked.
2. The correctness of the sale transactions are checked by means of the following controls:
 - a. A unique invoice number is allocated to each transaction.
 - b. The inventory code of the sold item is checked for validity against the inventory master file.
 - c. The inventory level is checked to ensure that sufficient items exist to perform the transaction. Should the inventory level be too low, a re-order is automatically created and deposited into the post box of the buyer. She attaches an authorisation code to the transaction to execute the order, after which it is electronically sent to the supplier.
 - d. Should the inventory level be lower than the number of items that the customer has physically taken from the shelves, then the supervisor enters an authorisation code to allow the program to create negative inventory levels.

REQUIRED

Marks

3.1 Formulate one test data transaction that the system should **reject** for each control that you identify.

(15) 18

3.2 Indicate for each control that you tested in 3.1 whether it is a general control, an input control, a processing control, or an output control.

(10) 12

[TURN OVER]

Present your answer in the same format as the example given below.

EXAMPLE:

1. Access control to the computerised operating system by means of passwords.

Number	Test data transaction that will be rejected by the system (1½ marks each)	General, input, processing or output control (1 mark each)
1	Input invalid password to gain access to the system	General

QUESTION 4

12.20 - 12.50

30

30 marks

You are the auditor of Downunder Limited. The financial systems are computerised and access to the general ledger as well as the fields listed therein can be gained through the generalised audit software that you use.

Sales

The sales file contain the following fields:

- Account number
- Transaction date
- Document number
- Quantity sold
- Selling price per item
- Sales amount
- Value-added tax (VAT)
- Discount granted

Inventories

The inventories file contain the following fields:

- Item number
- Dates of purchases and sales
- Document number
- Quantities purchased and sold
- Cost prices of purchases and sales
- Selling price per item of each sales transaction
- Quantities on hand at the beginning of the financial year
- Quantities on hand at the end of the financial year
- Adjustments made to inventory quantities

[TURN OVER]

Motor vehicles

The motor vehicle register and transaction files contain the following fields:

- Asset number
- Date of purchase
- Date of sale
- Vehicle description
- Vehicle category (eg "H" for heavy duty vehicles and "L" for light delivery vehicles)
- Registration number
- Economic life span
- Insurance premiums per vehicle

REQUIRED

Marks

Formulate procedures to collect, **by means of generalised audit software**, substantive evidence for the following transactions and balances:

4.1	Sales	(9)	6
4.2	Inventories	(15)	10
4.3	Motor vehicles	(6)	4

Use the fields in the computerised files as in the list above.