Department of Commercial Accounting

AUDITING AND INTERNAL CONTROL

AIC33B3

Final Summative Assessment Opportunity

November 2015

Time: 3 hours   **Marks: 100**

Assessor: Mr A.S. Peer; Mr C. Ackermann; Mr J. Mamaile
Moderator: Mr M. Pete

INSTRUCTIONS:

- This paper consists of seven pages (including the cover page).

- Answer all questions. Show all calculations and workings clearly (if applicable).

- Start each question on a new page.

- Silent, non-programmable calculators may be used.

QUESTION 1	EDP multiple choice	10 Marks
QUESTION 2	EDP General controls	10 Marks
QUESTION 3	Audit reporting	30 Marks
QUESTION 4	Working papers	10 Marks
QUESTION 5	EDP Application controls	40 Marks

QUESTION 1   **[10]**

1.1) Which of the following best describe a general control?   (1)

    A   The opposite of an applications control

    B   A control which is part of the overall framework of control for computer activities

1.2) Which one of the following is not part of the control environment?   (1)

    A   Commitment to competence

    B   Assignment of responsibility

    C   System development

1.3) Which of the following is an important aspect of continuity of operations   (1)

    A   Conducting a risk assessment to determine the most important risks facing the business and its IT environment

    B   Programme change controls

    C   Authentication of users

1.4) The principle of least privilege forms part of a company's   (1)

    A   Data practices

    B   Security policy

    C   HR procedures and policies

1.5) What does it mean to define the type of access to be granted to a user?   (1)

    A   Authorisation of the user

    B   Identification of the user

    C   Both (A) and (B)

    D   Approval of the user

1.6) Which of the following best describe an application control   (1)

    A   A control executed by the system

    B   The opposite of a general control

    C   A control which contributes to the accurate and complete processing of a transaction at a specific application

1.7) Controls around a computerised accounting environment are generally centred around   (1)

    A   The entire organisation

    B   Occurrence and authorisation, accuracy and completeness of processing and storage of data

    C   None of the answers are correct

1.8) Which one of the following is not a control activity in the computerised environment?   (1)

    A   Comparison and reconciliation

    B   Source document design

    C   Performance reviews

    D   Access controls at application level

1.9) Which one of the following is regarded as a general control?   (1)

    A   User identification to access the system

    B   Performance of a risk assessment to determine IT risks

    C   Physical protection of software to prevent theft

    D   All the answers are correct

1.10) Which one of the following is regarded as an application control?   (1)

    A   The approval of an amendment to the inventory Masterfile

    B   The approval of the appointment of the Chief Information Officer by the board

    C   The approval of a new back up strategy

QUESTION 2   [10]

General controls are controls which must be present for the effectiveness of application controls. General controls establishes an overall framework of controls for the computerised environment. The following categories of general controls should exist within each organisation:

- Control environment
- System development and implementation controls
- Access controls
- Continuity of operations
- System software and operating controls
- Documentation

The following policies and procedures are in place at Tavern (Pty) Ltd.

2.1)   The IT steering committee meets monthly to discuss existing and emerging IT risks.

2.2)   Policies are in place to allow for the dismissal of IT staff who acted without integrity or who did not comply with the company code of ethics.

2.3)   The company security policy contains the principles of least privilege, defence in depth, amongst others.

2.4)   An independent employee regularly reviews the log of activity on the system

2.5)   The users gets reminders to change their passwords.

2.6)   A detailed report is presented to the board of directors on IT activities and discussed in detail.

2.7)   All information is backed up on a mirror site.

2.8)   Post implementation reviews are conducted by internal auditors after the introduction of a new system.

2.9)   All personnel are subjected to an annual performance review.

2.10)   Company management encourage line staff to identify areas for improvement in the current system which could result in a change in the software. If so, the request to change the software must adhere to programme change controls.

REQUIRED:

For each of the above, indicate the type of general control in place by Tavern (Pty) Ltd.

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QUESTION 3   **[30]**

You are a third year article trainee at Value Audit Ltd. The supervisor on the audit got sick and would not be able to prepare the draft audit report, before its being sent to the audit manager for review and refinement.

Because you still have lots of other work (other audits), you decided to delegate the task to the second year trainee and asked him to please prepare the draft audit report for review and to submit it to you once it's done. After a week, the second year trainee presented the following draft report to you.

AUDITOR'S REPORT FOR COMPANY XYZ

We have examined the annual report, the financial statements and the accounts for the financial year end. The examination has been carried out according to Generally Accepted Auditing Standards.

We recommend that the income statement and statement of financial position be approved by the board. The board can then be relieved of any further responsibility until the start of the next financial year.

Value Audit Ltd	Value Audit Ltd
Second year trainee	Audit Manager
J Steyn	F Blaauw

When you received the draft audit report from the second year trainee, you realised that the trainee was not capable of preparing a good report. You decided to arrange training on ISA 700 in order to refresh all the trainees of the requirements of ISA 700.

REQUIRED:

3.1) Explain to the trainees criteria which must be met before the raising of an unmodified opinion in the audit report. (5)

3.2) List the recommended structure of an audit report as required by ISA 700. (7)

3.3) Explain to the trainees what is wrong with the report presented by the second year trainee. Use ISA 700 as a framework to identify what is wrong with the report. In your answer, focus must be given on the structure and content of the audit report. (18)

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QUESTION 4 **[10]**

ISA 230 Audit Documentation prescribes the minimum requirements for the preparation, review and maintenance of working papers**.** This will enhances the quality of the audit and provides the auditor with the means of proving that the audit was properly conducted should this be challenges.

REQUIRED:

4.1) List the purpose of working papers. (5)

4.2) List examples of *significant matters* which must be included in working papers.

(5)

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QUESTION 5 **[40]**

Information system's understanding is now critical for auditors. Information technology (IT) continues to permeate the fabric of business life. Thus, the auditors need to understand and evaluate risks and opportunities related to IT has heightened.

Auditors must be comfortable with IT terminology, concepts, and practical applications. Those who neglect this education will be relegated to trivial applications within the organisation. Auditing "around the computer" becomes a meaningless term when nearly all records, transactions, and processing decisions are automated. To maintain their independence, auditors must be able to deal with these systems. For the auditor, two broad areas of focus is important, namely, testing of the general controls framework and testing of application controls.

You are the audit senior at the audit of IT Systems Incorporated, and the client specifically asked for an audit of the application controls. You decided to organise a training session with the audit team on application controls so that they understand the basic types of application controls before writing audit procedures for testing.

REQUIRED:

5.1)   List and discuss the input controls a company could implement to ensure the accuracy and completeness of data entry into the accounting system.   (20)

5.2)   List and discuss the processing controls a company could implement to ensure the correct processing of data.   (10)

5.3)   List and discuss the output controls a company could implement to check the accuracy of processing and input and the completeness of transactions. (10)

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TOTAL **[100]**