Department of Commercial Accounting

AUDITING AND INTERNAL CONTROL

AIC33B3 & AIC3BB3

Final Summative Assessment Opportunity
November 2016

Time: 3 hours   **Marks: 100**

Assessors: Mr A.S. Peer; Dr C. Ackermann; Mr J. Mamaile

Internal Moderator: Ms R. Smith

External Moderator: Mr M. Pete

INSTRUCTIONS:

- This paper consists of eight 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	Multiple choice	15 Marks
QUESTION 2	Computer audit	10 Marks
QUESTION 3	Audit reporting	25 Marks
QUESTION 4	Working papers	14 Marks
QUESTION 5	Access control & documentation	25 Marks
QUESTION 6	Systems development	11 Marks

QUESTION 1   MULTIPLE CHOICE   [15 MARKS]

1.1) Why does the title of the audit report includes the word "Independent"?   (1)

A. To signify that the audit is an assurance engagement.

B. To enhance the credibility of the report by emphasising the independence of the
        auditor.

C. To limit the auditors' liability should the audit report prove to be inappropriate?

D. To make the report attractive.

1.2) To whom is the annual audit report addressed for a listed company?   (1)

A. The audit committee.

B. The chairman of the board.

C. The shareholders.

D. None of the above.

1.3) Which of the following may cause an auditor to modify his audit opinion?   (1)

A. There is disclosure which must be brought to the attention of the users.

B. The audit budget was exceeded.

C. There are uncorrected material misstatements in the financial statements.

D. All of the above.

1.4) With regards to "other information" in the annual report, what is the auditors'
responsibility?   (1)

A. The auditor has no responsibility.

B. The auditor must read the other information in order to detect misstatements of
        fact and material inconsistencies.

C. The auditor must express an opinion on the other information.

D. The auditor can ignore this.

1.5) Which one of the following is not a component of internal control according to
    ISA 315?   (1)

A. Control environment.
B. Control activities.
C. Detection risk   .
D. Risk assessment.

1.6) What is meant by segregation of duties? (1)

A. Being accountable for your actions.
B. Isolation of responsibilities.
C. Approving each phase of a transaction.
D. Separating incompatible functions between individuals.

1.7) Which one of the following is not regarded as good password practice? (1)

A. Passwords should consist of at least three characters.
B. Passwords should be unique to each individual.
C. Passwords should not be shared with anyone.
D. Passwords should not be displayed on-screen.

1.8) Application controls get implemented in which areas of computer processing? (1)

A. System development life cycle approach.
B. Input, processing and output.
C. Preventative, detective, corrective and directive.
D. Initiation, execution and recording.

1.9) Which of the following areas should stringent control exist over? (1)

A. Masterfile amendments.
B. Access to the store with very small valued items (immaterial).
C. Petty cash of R 5000 within an organisation with R 5 000 000 net profit.
D. None of the answers above need stringent controls.

1.10) What is the definition of a sequence check? (1)

A. It detects when a field entered does not satisfy a limit which has been set
B. It checks whether data entered into a field falls within a reasonable limit when compared to other data
C. It's the same as reverse multiplication
D. It detects gaps in sequence or duplication of numbers as they are

1.11) What is the definition of limit check? (1)

A. It detects when a field entered does not satisfy a limit which has been set.
B. It checks whether data entered into a field falls within a reasonable limit when compared to other data.
C. It detects gaps in sequence or duplication of numbers as they are entered.
D. It's the same as reverse multiplication.

1.12) Which of the following is not part of the control environment component of internal control? (1)

A. Integrity and ethical values.
B. Management philosophy and operating style.
C. Valid, accurate and complete.
D. Isolation of responsibility.

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

A. Commitment to competence.

B. System development.

C. Assignment of responsibility.

D. Management philosophy and operating style.

1.14) 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.

D. None of the above.

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

A. Data practices.

B. Security policy.

C. HR procedures and policies.

D. Physical access.

QUESTION 2 **COMPUTER AUDIT** **[10 MARKS]**

The following controls have been implemented by Mouse (Pty) Ltd.

2.1) When a delivery is made from a supplier, the receiving clerk enters the order number for the goods into the system. If the order number is not valid, the receiving clerk will not accept the delivery.

2.2) A new employee cannot be successfully added to the employee masterfile without a valid income tax reference number being entered.

2.3) The company recently appointed a committee to monitor and advise on the specific risks faced by the IT department.

2.4) When an application programme change request is made by a user department, it must be approved by the IT steering committee and the head of the user department before it is effected.

2.5) All creditors are paid by EFT. To effect a transfer, two senior employees must independently enter the unique passwords.

2.6) Entry to the company's data centre is restricted. Swipe cards and PIN number are used to limit access.

2.7) The company makes use of firewall and anti-virus software.

2.8) A purchase order must be supported by a stores requisition that is signed by the warehouse controller.

2.9) If a debtor has not paid its account within two working days of exceeding its credit terms, the credit controller contacts the debtor to request payment.

2.10) The Chief Information Officer conducts regular meetings with IT personnel on an individual basis, to enforce the importance of a strong ethical culture and discuss ethical situations which may have arisen.

REQUIRED:

For each of the scenarios listed above, indicate whether a general control or an application control is being depicted in the procedure.   (10)

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QUESTION 3   **AUDIT REPORTING**   **[25 MARKS]**

You are the partner in charge of the Sevenaoks (Pty) Ltd audit. The company is a medium sized furniture manufacturer situated in George. The Memorandum of Incorporation of the company requires that the annual financial statements be audited by a firm of the independent external auditors. Short after completing the 30 June 2016 year-end audit the senior in charge fell ill and one of the juniors on the audit compiled the draft audit report and submitted it to you for your scrutiny:

Report of the auditors to the directors of Sevenoaks

We have examined the financial statement for the year ending 30 June 2010. These financial statements are the responsibility of management. Our responsibility is to report on these financial statements.

The following matters came to our attention:

1. The audit of raw materials held at the company's stockyard in George was successfully conducted by Spay and Co Inc., a firm of registered accountants and auditors in George;

2. The company has failed to keep a fixed asset register;

3. A competitor of the company, Woodmerx (Pty) Ltd has filed a lawsuit against the company for one million rand on the grounds that your company has copied certain exclusive furniture designs. The directors have not disclosed this matter or adjusted for this amount in the financial statements but have acknowledged the seriousness and uncertainty of the matter in the management representation letter.

Our investigation has in our opinion revealed that the financial statements do not require motivation so as to fairly present the financial position of the company and the results of operations for the year ending 30 June 2016, in conformity with generally accepted auditing standards and in the manner required by the Companies Act of South Africa.

Carmen and Co Inc.

Chartered Accountants and Auditors (SA)

30 June 2010

REQUIRED:

Identify the errors/deficiencies in the report and explain these to your junior where appropriate. You are not required to redraft the report. (25)

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QUESTION 4   **WORKING PAPERS**   **[14]**

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

REQUIRED:

4.1) Describe factors impacting the form, content and extent of the audit documentation.   (7)

4.2) List quality control procedures that the audit firm could establish for their working papers.   (7)

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QUESTION 5   **ACCESS CONTROL**   **[25 MARKS]**

Auditors are taking the interest of the shareholders at heart and ensure that the business management protects and safeguards all business assets sufficiently at all times. This includes the protection and safeguarding of Information Technology (IT) assets and facilities that need to be protected against unauthorised access.

REQUIRED:

5.1) List the physical controls that can be implemented to prevent unauthorised entry into the IT (EDP) centre.   (10)

5.2) List the controls designed to protect IT (EDP) facilities against natural and environmental hazards and attack or abuse by unauthorised people.   (10)

5.3) Documentation is important in an IT (EDP) environment. List the standards that should exist for documentation.   (5)

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QUESTION 6   **SYSTEM DEVELOPMENT**   **[11 MARKS]**

When a new system is developed and subjected to vigorous systems development controls, the result is usually a well-designed, effective application which produces reliable information in a format which satisfies the user, however, this is just a starting point. There is always an ongoing need to modify applications to meet changes in user requirements, improve ways of presenting information and so on. These modifications require changes to the application programme and if such changes are not carefully controlled, unauthorised modifications could be made negating the effect of the strong controls which were implemented when developing the system.

REQUIRED:

6.1)   Describe the controls which should be in place during programme changes
       (11)

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TOTAL   **[100]**