Tutorial Letter 202/1/2018

Introduction to Auditing
AUE1501

Semester 1

Department of Auditing

IMPORTANT INFORMATION:
SUGGESTED SOLUTION TO ASSIGNMENTS 02 AND 03 OF 2018 FOR THE FIRST SEMESTER
SUGGESTED SOLUTION TO ASSIGNMENTS 02 AND 03 OF 2018 FOR THE FIRST SEMESTER

In Tutorial Letter 101 we mentioned that only a sample or sections of a question would be marked. You must use the suggested solution to mark all the questions for self-assessment purposes.

QUESTION 1 DOCUMENT IDENTIFICATION

Correct presentation: 1 mark

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<td>3.</td>
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<td>Jackson &amp; Stent (2016:11/5)</td>
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QUESTION 2 CONTROLS FOR THE REVENUE AND RECEIPTS CYCLE

2.1 Controls sales made to creditworthy customers

Reference: Jackson & Stent (2016:10/11)

1. Before processing the order, checks should be carried out by the credit controller to establish that the … (1½)
   - customer has not supplied fictitious details. (1½)
   - customers credit status is satisfactory. (1½)
   - referencing the customer details e.g. account balance and available credit on the account. (1½)

2. Internal sales orders to be authorised by signature of the credit controller before being sent to the warehouse. (1½)

3. For a new customer, credit application procedures must be conducted before an order is filled. The credit application form must request the customer to provide … (1½)
   - banking details. (1½)
   - trade references. (1½)
   - financial abilities to repay debts. (1½)
   - Customer liquidity calculations. (1½)
4. The credit controller must follow up by contacting the trade references and credit bureaus and assessing customer liquidity.  

5. Terms and limits must be set by the credit controller and approved by the financial manager.  

Maximum 15 marks

2.2 Correct goods despatched and delivered to customers

Reference: Jackson & Stent (2016:10/13)

1. On receipt of the goods, picking slip and delivery notes from the warehouse the despatch clerk should check:  
   - Check quantities and description of goods against authorised picking slip and delivery note  
   - Sign picking slip and delivery note to acknowledge receipt of goods  
   - Retain two copies of the delivery note and return a copy of the signed picking slips to the warehouse.  

2. The goods packed in the box for delivery should be checked to the picking slip and delivery note.  

3. The address on the box should be checked against the delivery address on the delivery note and the box sealed immediately.  

4. The despatch clerk should prepare a two part list of deliveries.  

5. The list of deliveries should be matched to the delivery notes and the physical goods loaded onto the vehicle.  

6. The driver should supervise the loading of the truck and sign a copy of the delivery list to acknowledge receipt of the delivery notes and corresponding goods.  
   - The driver to retain on copy of the delivery list, and delivery notes.  
   - Despatch clerk to retain signed copy of delivery list.  

7. The gate control security should check all goods to be delivered appear on the delivery list and supported by delivery notes and stamped by them.  

8. On delivery, the customer should sign both copies of the delivery note to acknowledge receipt of goods, retain a copy and return the other copy with the driver.  

Maximum 15 marks

QUESTION 3 RISKS ASSOCIATED WITH ACQUISITIONS AND PAYMENTS CYCLE (27)

3.1 Describe the risks involved in the ordering of goods function.  

Reference: Jackson & Stent (2016:11/9)

1. Ordering of incorrect or unnecessary goods, resulting in liquidity problems and wastage.  

19 1/2 marks
2. Ordering **unauthorised goods** resulting in losses to the company through **fraud**. (1½)
3. Requisitions **not acted upon** or orders not placed timeously or at all. (1½)
4. Obtaining **inferior quality** goods. (1½)
5. Paying unnecessarily **high prices** for goods. (1½)
6. Orders placed with **suppliers not filled** / not timeously filled. (1½)
7. **Order forms misused** e.g. for placing orders for private purchases. (1½)  
\[\text{Total} = 10\frac{1}{2}\]  
**Maximum 9 marks**

3.2 **Describe the risks involved in the receiving of goods function.** (9)

**Reference:** Jackson & Stent (2016:11/10)

1. Acceptance of:
   - **Short deliveries** as full deliveries. (1½)
   - **Damaged** and broken items. (1½)
   - **Items not ordered.** (1½)
   - **Goods not of the required type** or quality. (1½)

2. **Good received notes not made out accurately or completely.** (1½)

3. **No goods received note made out.** (1½)

4. **Theft** by employees or outside parties. (1½)  
\[\text{Total} = 10\frac{1}{2}\]  
**Maximum 9 marks**

3.3 **Describe the risks involved in the payment preparation and actual payment function**(9)

**Reference:** Jackson & Stent (2016:11/12 & 13)

1. Payment to **fictitious** creditors. (1½)
2. Payment of **incorrect** amounts. (1½)
3. **Unauthorised** payments. (1½)
4. **Discounts lost** due to late payment. (1½)
5. Payments (Cheques) may be **incorrectly made out** (wrong payee, amount) (1½)
6. **Invalid payments** may be made (fictitious creditors, overpayments) (1½)
7. Payments may be **recorded inaccurately** (errors) or may be intentionally misstated to hide fraud. (1½)  
\[\text{Total} = 10\frac{1}{2}\]  
**Maximum 9 marks**
ASSIGNMENT 03/2018: SELF-ASSESSMENT ASSIGNMENT

Refer to Tutorial Letter 101, Section 8.7 for the questions.

QUESTION 1 10 marks

(Stating True or False = ½ mark, plus max 1½ marks per reason) (Max 10 marks)

1.1 True^ (study guide, study unit 7.1): A sale made with the buyer paying at a later date than the sale date is known as a credit sale. √^ OR A sale made where the buyer pays immediately in cash is known as a cash sale. √^

1.2 False^ (study guide, study unit 4.1): Occurrence is an assertion about classes of transactions and events and not about account balances. √^

1.3 False^ (study guide, study unit 10.1): The major difference between wages and salaries is that salaries are expressed as a fixed monthly amount, while wages are calculated based on the hours worked per employee. √^

1.4 False^ (study guide, study unit 7.1): A sales order reflects the details of the goods being ordered by the customer. √^ OR A credit note reflects the information about goods returned by a customer. √^

1.5 False^ (study guide, study unit 11.1): The correct procedure is to identify obsolete, slow-moving and damaged inventory to ensure that it is valued at the lower of cost or net realisable value. √^

QUESTION 2 27 marks

2.1.1 Differences between internal auditors and external auditors

References: - Study guide, Learning Unit 11
- Jackson & Stent (2016:1/2–1/3)

<table>
<thead>
<tr>
<th>Internal auditors</th>
<th>External auditors</th>
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<tbody>
<tr>
<td>Perform a management function. √^</td>
<td>Perform an external attestation function (auditing function). √^</td>
</tr>
<tr>
<td>Are contracted by the company they are working for. √^</td>
<td>Work for an independent audit firm. √^</td>
</tr>
<tr>
<td>Report to management (including the audit committee). √^</td>
<td>Report to the shareholders. √^</td>
</tr>
<tr>
<td>Function independently in the organisation, but remain part of it. √^</td>
<td>Function independently from the organisation. √^</td>
</tr>
<tr>
<td>Obtain a mandate from management/the audit committee. √^</td>
<td>Obtain a mandate through legislation. √^</td>
</tr>
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1 mark for communication: layout and structure
(1.5 x 10 = 15)
(Max 15 marks)
TOTAL = 16 marks


2.2.1 Public interest score

References: - Study guide, Learning Unit 9
- Jackson & Stent (2016:3/77)

The public interest score is used to determine …

- which financial reporting standards/framework the company must comply with. √
- the categories of companies which must be audited/independently reviewed. √

(1 x 4 = 4)
(Max 2 marks)

2.3.1 Detection risk

References: - Study guide, Learning Unit 14
- Jackson & Stent (2016:7/5)

Detection risk is the risk that the procedures performed by the auditor √ to reduce audit risk to an acceptably low level √ will not detect a misstatement that exists √ and that could be material, either individually or when aggregated √ with other misstatements.

(1 x 4 = 4)
(Max 3 marks)

2.3.2 Inherent limitations of internal controls

References: - Study guide, Learning Unit 3
- Jackson & Stent (2016:5/4–5/5)

All internal controls have inherent limitations, which make them less than 100% efficient, such as …

- the potential for human error due to carelessness, distraction, mistakes and misunderstanding of instructions. √
- the possibility of dishonest employees working together (collusion). √
- the possibility of management overriding internal controls. √
- the possibility that conditions may change in the entity so that the procedures become inadequate. √

(1.5 x 4 = 6)
(Max 6 marks)

If the student mentions the following inherent limitations, marks may also be awarded:

- Management’s usual requirement that the cost of internal control does not exceed the expected benefit to be derived (cost/benefit). √
- The tendency for internal controls to be directed at routine transactions, rather than non-routine transactions. √

QUESTION 3

3.1 List the three documents and or records used in the order department.

Reference: Jackson & Stent (2016:10/10)

1. Customer order. (1)
2. Internal sales order. (1)
3. Price lists. (1)

(1 x 3 = 3)
3.2 Describe the risks involved in the order department.

Reference: Jackson & Stent (2016:10/10)

1. Orders may be accepted from a non-account holder. (1½)

2. Orders may not be accepted timeously or at all (1½) and will result in a loss of sales and customer goodwill (1½).

3. Inaccurate or incomplete order details may be recorded (1½) resulting in incorrect deliveries, returns and customer dissatisfaction (1½).

\[5 \times 1\frac{1}{2} = 7\frac{1}{2}\]

3.3 Describe the control activities to mitigate the risks you identified in 3.2.

Reference: Jackson & Stent (2016:10/10)

1. Record all orders on sequentially numbered internal sales orders. (1½)

2. No orders will be accepted if the customer is not an approved customer (1½). The order clerk will check the approved customer list (1½).

3. Attached customer order to internal sales order and have second staff member cross check detail. (1½)

4. For phone orders, **order clerk** to:
   4.1 Request customer’s account number. (1½)
   4.2 Request customer’s order reference. (1½)
   4.3 Confirm all order details, including delivery address and price of goods, by reading order details recorded back to customer. (1½)

5. Order clerk sign all Internal Sales Orders (ISOs) to indicate performance of control activities. (1½)

6. On a regular basis, ISAs to be sequence checked (for completeness) (1½), and matched to delivery notes to identify any orders that have not been acted upon. (1½).

\[11 \times 1\frac{1}{2} = 16\frac{1}{2}\]

(Max 15)

**QUESTION 4  THE STEPS TO PERFORM A BANK RECONCILIATION** 19 marks

Reference: Study guide, Learning Unit 25

1. Obtain the previous month’s reconciliation. (1½)

2. Obtain the cash book and balance for the month under review. (1½)

3. Obtain the bank statements for the month under review. (1½)

4. Agree the previous month’s reconciliation with the opening balance of the cash book and bank statements. (1½)
5. Tick off the month’s bank statements with the cash book and the reconciling items of the previous month’s reconciliation.  

6. Identify the reconciling items:
   • Outstanding cheques or payments not yet reflected on the bank statement.  
   • Outstanding deposits not yet reflected on the bank statement.  
   • Bank charges on the bank statement not yet reflected on the cash book.  

7. Make the necessary adjustments to the cashbooks e.g. entering the bank charges not yet reflected on the cash book.  

8. Compile the reconciliation by setting it out as follows:
   • Balance per cashbook.  
   • Add: Outstanding cheques.  
   • Deduct: Outstanding deposits.  
   • Balance per bank statement.  

   15 x 1½ = 22½  
   (Max 19)