

**ACCOUNTING CYCLES
MANUAL and COMPUTERISED CONTROLS**

Question 1: (Assignment 2: 2009) - Petty Cash

Describe the internal control measures for petty cash funds which should be implemented at 12 branches of a franchise network. (12 marks)

Question 1: ANSWER:

See notes: AUE 2602: Controls: Petty Cash

1. They must make use of an imprest system as this is one of the most effective systems of controlling and recording petty cash. This system improves the control over petty cash and decreases the possibility of misappropriation of cash.
2. The responsibility of each petty cash fund must be vested in one person (petty cash cashier).
3. No cash should be received by the petty cash cashier except that drawn by cheque to reimburse the petty cash expenditure incurred.
4. The petty cash record must be written up and balanced daily by the petty cash cashier.
5. The petty cash fund must at least on a monthly basis be balanced with the general ledger by an independent person.
6. The person responsible should examine the petty cash record at least once a month.
The total spent and the analysis of the expenditure should be scrutinised. The cash on hand should be counted and agreed to the petty cash records. Thereafter it should be signed as evidence that this has been done and approved.
7. Petty cash source documents must be properly cancelled and filed, so that it cannot be used again.
8. If an expenditure receipt is not available, a petty cash slip should be prepared, which should be signed by the person requiring the cash and countersigned.
8. The person responsible for the petty cash fund should not have access to the
9. No cheques should be cashed out of petty cash funds and no loans to staff members out of petty cash funds should be allowed.
10. Petty cash funds must be secured against theft.

QUESTION 2 – Assignment 2 – 2011 –

REVENUE and RECEIPTS

Your firm has been appointed to perform a special Investigation on the revenue and receipts cycle of Yummy Ice Cream (Pty) Limited, a company that makes and sells ice cream. After interviewing the relevant staff members, the following system description was obtained:

Yummy Ice Cream Limited only sells on credit to account holders. The company's customer base is divided alphabetically into four groups that are of approximately equal size. There are four (4) clerks, where each clerk is responsible for a single group of customers. The following tasks are handled by each of the sales clerks: approving orders and making adjustments to accounts (eg processing of credit notes when required).

The company only accepts faxed orders or orders sent through the post. Some customers also send the original copy of an order through the post, after they have faxed their order. All orders are received by the administration clerk, Mrs Tootie Fruity. The fax machine, which has a dedicated fax number for orders, is installed in her office. Post is delivered by 9.0'clock each morning and she immediately sorts the orders, both faxed and received Through the post. Into four alphabetic groups. She then hands the four piles to the sales clerks responsible for the group or places them on the sales clerks' desks.

REQUIRED

Describe *four (4) weaknesses* in the revenue and receipts cycle of Yummy Ice Cream (Pty) Limited and *describe one possible* impact on the accuracy of the accounting records for each of the weaknesses described. Limit your answer to the aspects described above.

Present your answer as follows:

Internal control weakness (1 mark each)	Impact of each weakness (1½ marks each)
1. Not properly reviewed by 1. Reception	1. (changed)

QUESTION 2 – ANSWER

Weaknesses in the revenue and receipts cycle of Yummy Ice Creams (Pty) Limited and a possible impact on the business for each weakness described:

Internal Control Weakness (1 mark each)	IMPACT if each Weakness (1½ marks each)
1. There is a serious lack of division (segregation) of duties in respect of the functions carried out by the sales clerks. They are responsible for the approval of customer orders and making adjustments (credit notes) to debtors accounts.	1. Allowing an employee to initiate a transaction and enabling him to alter the recording of it, increases the risk of fictitious transactions taking place. For example, a sales clerk could initiate an order for a customer who is either family or a friend, and then subsequently passing an invalid credit note on that customer account, resulting in the goods not being paid for.
2. There is inadequate control over the receipt of faxed orders and orders sent through the post: Mrs Tootie Fruity does not record any incoming faxed orders and orders sent through the post in a mail register before distributing them to the sales clerks.	A lack of audit trail is created which makes it impossible to follow up on queries from customers as to whether and when orders have actually been received.
the transfer of customer orders from Mrs Tootie Fruity to the sales clerks.	3. As there is no record of the movement it is impossible to isolate responsibility for any orders that are lost or are not acted upon.
4. Mrs Tootie Fruity or the sales clerks do not check that orders received through the post have not already been received by fax.	4. An order may be filled twice, leading to problems later on in the cycle, eg goods being returned, credits to be processed, or dissatisfied customers.

QUESTION 3 : INTERNAL Controls (Assignment 2 – 2009 & 2010) - SALES/ REVENUE

You are the auditor of Macrohard (pty) Limited. It is a company who manufactures sporting equipment.

The company sells its products to wholesalers and a few retailers. Mr William Fence, the managing director of the company, is concerned about the sales and receipt system in operation and has asked for assistance in this regard.

The following description describes the company’s sales and receipt system.

Mrs Venter, the receptionist, is responsible for opening all incoming mail. All orders that are received by mail are sent directly to the sales department, while all cheques and monies received are sent to Mrs Collect, the debtor’s clerk. Mr.s Collect updates the debtor’s accpunts with the payments and then deposits the money and cheques into the company bank account.

The sales department makes out a sales order in triplicate from the order received via the mail and telephone. The sales orders are checked by the sales manager and approved before being sent out.

The first copy of the sales order is sent to the credit controller, who authorizes the order after the client’s credit worthiness and credit limit have been checked. The 2nd and 3rd copies are sent to the finished goods store for the inventory to be withdrawn.

The finished goods store prepares the inventory for delivery and if any changes are required to the order (certain goods not in inventory) , the head store man makes the necessary changes on the sales order, are then sent to the dispatch department. The 2nd copy of the sales order is retained by the store for their records.

The dispatch department physically checks the goods that are received from the finished goods store and compares it to the third copy of the sales order. Thereafter they prepare the sales invoice in duplicate. The first copy is sent together with the goods to the customer, the 2nd copy is sent to Mrs. Collect, the debtors clerk.

Mrs. Collect checks all the calculations on the sales invoice and compares the prices to the latest price list. She then posts the sales invoice to the debtor’s account. At the end of every month, after reconciling the debtors ledger to the debtors control account, Mrs. Collect prepares the debtor’s monthly statements and mails them to customers. Any queries from the debtors are referred to Mrs. Collect for follow up. If necessary, she performs adjustments on the debtor’s accounts.

After the debtors statements have been mailed the final debtors summaries are sent to the accountant, Mr. Number, for updating of the general ledger.

REQUIRED:

Identify the weaknesses in the above system and describe the controls that would prevent the identified weaknesses.

Present your answer as follows:

WEAKNESSES (1 mark each)	CONTROL (1 mark each)
1.....	1.....

(1 mark for weakness & 1 for control Max 20)

ANSWER: QUESTION 3 Sales / Revenue

WEAKNESSES	CONTROL
1. Mrs Venter opens the mail alone.	1. Incoming mail should be opened by at least two independent persons.
2. No record is maintained of the monies or orders received from customers.	2. A register for all monies that are received and a register of all orders received must be maintained. The register for monies received should be signed by the persons opening the mail and by the person to whom cheques and monies are handed. This register should be reconciled to the bank deposit slips and sales orders and periodically checked by an independent person.
3. Cheques are not crossed by Mrs Colled, who opens the mail.	3. Mrs Collect should ensure that all cheques that are received are crossed before handing them to the cashier.
4. All monies received are sent to the debtors clerk.	4. Monies should be handed directly to the cash book clerk/cashier and a copy of the mail register should be given to the debtors clerk for recording of debtors' payments.
5. The availability of goods is not confirmed with the stores department before a sales order is accepted.	5. The availability of goods should first be confirmed with the stores department before a sales order is accepted.
6. No indication that the sales orders are pre-numbered and sequenced.	6. Sales orders should be pre-numbered and made out sequentially.
7. Changes are made to the sales order by the head store man. after the order has been approved.	7. No changes should be made to the sales orders by the finished goods store men. If goods are not in inventory, the sales department must be informed to make the necessary changes.
8. The despatch clerk does not sign the store's copy of the sales order as proof of receipt of the goods by the despatch area.	8. The despatch clerk should sign the store's copy of the sales order as proof of receipt of the goods by the dispatch area.
9. The invoices are sent to the customers before the prices and calculations on the invoices have been checked.	9. The prices and calculations of the invoices should be checked by an independent person before the invoices are sent to the customers.
10. No delivery notes or duplicate invoices are sent to customers for them to sign as acknowledgement of receipt of goods. Invoices are also recorded before the proof of delivery is received.	10. Delivery notes or duplicate invoices should be sent to the customer and one copy should be signed by the customer as proof of delivery of goods. This copy should be returned as proof of delivery and only then should the invoices be recorded.
11. Mrs Collect checks the accuracy of the sales invoices and is also responsible for recording of the invoices in the debtors ledger.	11. These two functions should be separated. An independent person should be responsible for the recording of invoices in the debtors ledger and another person should periodically check Mrs Collect's work.
12. Mrs Collect handles all the debtors' queries and makes corrections to the debtors accounts. These corrections are not reviewed by a senior person.	12. These two functions should be segregated and performed by independent persons. Corrections should be reviewed by a senior person.

13. Mrs Collect's work is not reviewed by Mr Numbers.

13. Mrs Collect's work should be reviewed by a senior independent person, Mr Numbers.

QUESTION 4 - SALES - weaknesses

(October 2013)

(20 Marks)

Big Clean (Pty) Limited is a large company supplying industrial cleaning products wholesale. The company started as a small cash sales enterprise five years ago, but has grown quickly into a major supplier to factories nationwide. Most of the revenue has lately been created by means of credit sales to a fixed approved client base. However, the company's system of internal control has not kept up with the company's growth, resulting in disputes with debtors about incorrect deliveries and account balances, amongst others.

The following is a brief description of the **functions** in an everyday credit sales transaction of Big Clean:

1. Once an order from an existing client is received, it is immediately recorded on an internal sales order (ISO) by the order clerk and sent to the warehouse for picking and despatch by the warehouse clerk.
2. Orders from existing clients are not individually checked and authorised by a credit controller as a long relationship of trust exists between the clients and Big Clean.
3. The warehouse clerk uses the ISO, which serves as picking slip, to pick goods from the warehouse and then sends the goods straight away to despatch.
4. The despatch clerk receives the goods from the warehouse, loads it directly onto the delivery vehicle and leaves for delivery.
5. The customer is given an invoice with delivery to indicate the goods delivered and the amount due.
6. The invoice clerk records the sales invoice in the sales journal, whereafter a debtor's statement is printed and posted to the customer.

REQUIRED

Marks

2.1 For each of the functions in the everyday credit sales transactions (see 1.3 above) identify two weaknesses in the internal controls.

Present your answer in the following format:

Weakness
Function 1: 1.1 1.2
Function 2: 2.1 2.2
Function 3: 3.1 3.2
Function 4: 4.1 4.2
Function 5: 5.1 5.2
Function 6: 6.1 6.2

Two (2) marks will be awarded for the correct presentation of your answer.

(20)

QUESTION 4 - MEMO - SALES & Debtors - (October 2013)

2.1 Weaknesses in the system of internal control over credit sales transactions

20 marks

Weakness

- 1.1 The order is not checked against the approved customer list by the order clerk before accepting the order. (1½)
- 1.2 The ISO is not compared by an independent employee/supervisor to the order to ensure accuracy,. (1½)
- 1.3 The order clerk does not sign the ISO to confirm performance of the above. (1½)

Limited to two weaknesses

- 2.1 The credit controller does not perform checks on the order before the ISO is issued. (1½)
- 2.2 The credit controller does not authorise the ISO before sending it to the warehouse. (1½)

- 3.1 The warehouse clerk does not initial the picking slip for each item picked. (1½)
- 3.2 There is no supervisor/warehouse foreman who performs checks to ensure all goods picked are supported by picking slips. (1½)
- 3.3 The warehouse clerk does not check goods to picking slips before sending it to despatch. (1½)
- 3.4 The warehouse clerk does not prepare delivery notes before sending it to despatch. (1½)

Limited to two weaknesses

- 4.1 The despatch clerk does not compare the goods to the picking slip and delivery note. (1½)
- 4.2 Delivery staff does not supervise the loading of the delivery vehicle. (1½)
- 4.3 There is no security check at the gate where the goods are compared to the

delivery note – the vehicle directly leaves for delivery. (1½)

Limited to two weaknesses

5.1 On delivery, the customer is not given copies of delivery notes to sign and to retain one copy. (1½)

5.2 The invoice is generated before a customer signed delivery note is received. (1½)

6.1 The recording of invoices onto the sales journal are not checked by an independent staff member. (1½)

6.2 No reconciliation is done between a control total of invoices and the sales journal total before debtor statements are generated and posted. (1½)

6.3 No reconciliation is done between the debtor's ledger and the debtor's control account in the general ledger before debtor statements are generated and posted. (1½)

Limited to two weaknesses

Award 2 marks for the correct formulation and presentation.

**(1½ for each valid weakness and 2 for presentation to the max of 20 marks;
(12x1.5 + 2 = 20))**

Comments to markers:

- Student receive no marks for providing **RISKS or INTERNAL CONTROLS**

QUESTION 5 - Debtors Masterfile - Changes and controls (October 2013) (15 Marks)

- 2.2** Advise the management of Big Clean of the controls that could be implemented over the **debtor's masterfile** in a computerised environment to ensure that only **authorised amendments are entered** into the system. **(15)**

2.2 Controls over the debtor's master file: only authorised amendments are entered **15 marks**

Reference: Jackson & Stent (2012: 12/7)

1. Restrict write access to the debtor's master file to a specific member of the section by the use of user ID and passwords. (1½)
2. All master file amendments should be automatically logged by the computer on sequenced logs. (1½)
3. These sequenced logs should be reviewed for accuracy and completeness. (1½)
4. There should be no write access to these logs. (1½)
5. To enhance the accuracy and completeness of the keying in of master file amendments and to detect invalid conditions, screen aids and programme checks can be implemented. (1½)

Screen aids and related features

6. Minimum keying in of information (1½)

7. Screen formatting: screen looks like the master file amendment form (MAF), screen dialogue (1½)
8. The account number for a new debtor is generated by the system. (1½)

Programme checks

9. Verification/matching checks to validate a debtor account number against the debtors masterfile (1½)
10. Alpha numeric checks on data entered, such as a debtor's name should only use letters of the alphabet (1½)
11. Range and/or limit/data approval checks on terms and credit limit field (1½)
12. Field size check and mandatory/missing data checks (1½)
13. Sequence check on MAFs entered to ensure that no MAF's were left out (1½)
14. Dependency check. e.g. the credit limit granted may depend upon the credit terms granted, e.g. a 90 days up to a limit of R2 000 (1½)

(1½ for each valid control to the max of 15 marks; available 21 marks)

You are the auditor of Motorbikes R Us (Pty) Limited, a company that sells a wide range of motorbike accessories to motorbike shops around the country. The financial director requested you to evaluate the company's acquisitions cycle. The following is a description of part of Motorbikes R Us (Pty) Limited's acquisitions cycle:

1. The issues and receipts (recorded on delivery notes and goods received notes) of each day are entered onto a transaction file for updating of the inventory master file every night. Controls over these processes are sound. Minimum inventory levels for each inventory item are set.
2. Each morning, the purchases manager, Mr Kawazaki, accesses the inventory application, using his user identification and password, and selects the "Inventory levels module" from the menu. This produces an on-screen re-order listing that is used to identify the inventory items that have reached the minimum inventory levels and the quantity to be ordered.

Mr Kawazaki then enters the supplier's code into a designated field and by clicking on the "Print" instruction, prints a sequenced multipart hardcopy order. He signs each order and sends them through to the mailing section, where they are put into envelopes and mailed to the supplier.

Note: Once the order has been generated, the inventory item is flagged "Order placed" until the order is received. This ensures that the item does not appear on the re-order listing each day.

3. Each inventory record also contains the names and codes of up to three suppliers of that specific inventory item. When Mr Kawazaki clicks on the "Supplier code field", a list of suppliers for that inventory item appears and the selection is made by clicking on the suppliers of choice. Should he wish to add a supplier to the inventory master file, he accesses the "Amendments" module of the inventory application and types in the supplier details. The software generates the supplier code automatically.

REQUIRED

Identify the weaknesses in the ordering section of the acquisition and payment cycle of Motorbikes R Us (Pty) Limited described above. Furthermore, describe the possible impact(s) on the business for each weakness identified.

Present your answer as follows:

Internal control weakness identified (1 ½ marks each)	Impact(s) for each weakness identified (1 ½ marks each)
1	1

QUESTION 6 : ANSWER - Ordering/purchase / payment

Internal Control Weakness Identified (1 ½ - marks each)	Impact/s for each weakness identified (1 ½ marks each)
1. No review procedures are carried out by anyone (eg stores, marketing, buying) to determine whether the inventory items on the re-order listing and [he quantities to be ordered are actually required BEFORE the order is placed.	1. Failure to do this may result in overstocking, eg safes of a particular item may have slowed down and the quantity ordered will take months to sell.

<p>2. Management doesn't compare the inventory items flagged with "Order placed" with the Goods received notes.</p>	<p>2.1. Orders could be lost between "buying" and "mailing" and there is no way of isolating responsibility and holding someone accountable.</p>
	<p>2.2. Mr Kawazaki may not print out all orders</p>
<p>3 Mr. Kawazaki does not contact the suppliers to check on prices, availability or delivery time before the order is sent Furthermore, an approved supplier price list or contracts with suppliers do not exist</p>	<p>3.1 The company may be paying too much, disputes with suppliers about prices may occur at a later date and sales by Motorbikes R Us (Pty) Limited may be lost because items have not been received by suppliers</p>
<p>4. Controls over amendments to the inventory master file are inadequate by virtue of poor division (segregation) of duties, lack of supporting documentation (approved master file amendment form and details of investigation into a supplier) and absence of supervisory control (management does not approve changes to the inventory master file and also does not perform a regular reconciliation between the inventory master file and approved master file amendment forms).</p>	<p>4.1 This weakness enables Mr. Kawasaki to place any supplier onto the master file without authority or justification.</p> <p>4.2. Poor division (segregation) of duties and lack of supervision by the chief buyer enables Mr Kawazaki to place a supplier on the master file and then to direct all orders to that supplier. Mr Kawazaki could easily direct business to for example, his own company or to a supplier which is prepared to pay him a "kickback" in his private capacity, at the expense of Motorbikes R Us (Pty) Limited.</p> <p>4.3 The lack of properly designed and sequenced master file amendment forms and the lack of supporting documentation (eg details of investigation into a supplier), make proper authorisation procedures impossible..</p>
<p>5. There is lack of supervisory control (for example, the chief buyer does not approve orders which were placed by mr. Kawazaki, especially where orders are above a certain value) in the buying department, which will result in a poor control environment OR there is no segregation of duties in the ordering department.</p>	<p>5. Mr Kawazaki, the purchase manager is responsible for all aspects of ordering and following up on orders. Once he realises that he can "do what he likes" he is likely to become far less control conscious than if the chief buyer was constantly reviewing his performance. (see also point 4).</p>

You are part of the internal audit team of The Family Store Limited, a large general dealer in South Africa. On review of the current year financial statements the external auditors reported material discrepancies between physical inventory on hand and perpetual inventory in the financial records. As a result, the financial director requested internal audit to perform an investigation into the effectiveness of the system of internal control over the **ordering of goods**, as an important function in the purchasing of inventory for the company.

Ordering of goods

You identified the following **risks** in the **ordering of goods** function which could occur due to weaknesses in the system of internal control:

1. The ordering of **incorrect or unnecessary goods**, resulting in liquidity problems and wastage.
2. The ordering of **unauthorised goods** resulting in losses to the company through fraud.
3. Obtaining of **inferior quality goods**.
4. Paying **unnecessarily high prices** for goods ordered.
5. Orders placed with suppliers that are not filled / not timeously filled.
6. Order forms that are misused, for example for placing orders for private purchases.

Creditors masterfile

Management decided to implement a new **computerised creditors masterfile** as part of the improvement of internal controls over the ordering of goods and suppliers in particular. This would prevent, amongst others, employees from creating fictitious suppliers to conceal theft during the ordering of goods.

Year end inventory count

In addition to the above measures taken by the company, the external auditors also recommended that the company review and improve its **year end inventory count** procedures in order to establish accurate inventory quantities at year end.

REQUIRED

Marks

- 2.1 Advise management of the **internal controls (in a manual system)** that could be implemented to mitigate the risks that you identified. **(15)**

Present your answer in the following format:

Risk no.	Internal control
1.	
2.	
3.	
4.	
5.	
6.	

2.1 Internal controls over the ordering of goods in a manual system 15 marks

Reference: - Jackson & Stent (2010: 11/9)

Risk 1

1. Order clerks should not place an order without receiving an authorised requisition. (1½)
2. The order should be cross referenced to the requisition. (1½)
3. Prior to the requisition being made out, stores/production personnel should confirm that the goods are really needed. (1½)

Risk 2

1. Before the order is placed, a supervisor/senior buyer should:
 - check the order to the requisition for accuracy and authority; (1½)
 - review the order for suitability of supplier, reasonableness of price and quantity, and nature of goods being ordered. (1½)
2. Segregation of duties should exist between the ordering and authorisation duties. (1½)

Risk 3

1. The company should preferably have an approved supplier list to which the buyer should refer when ordering. (1½)

Risk 4

1. Before a supplier is approved, senior personnel should carefully evaluate the pricing of products of the company. (1½)
2. The suppliers masterfile could include a price list of goods normally/contracted to be purchased from the supplier. (1½)
3. If goods need to be purchased from a supplier other than the usual approved suppliers, or goods not included in the above price list, a quotation should be obtained for goods to be ordered. (1½)

Risk 5

1. Before a supplier is approved, senior personnel should carefully evaluate the reputation of the supplier with regards to reliability. (1½)

2. Even when ordering from an approved supplier, the buyer should contact the supplier to confirm availability and delivery dates. (1½)
3. The ordering department should file requisitions sequentially by department and should frequently review the files for requisitions which have not been cross referenced to an order. (purchase requisitions cross referenced to purchase orders) (1½).
4. A copy of the order should be filed sequentially. (1½)
5. The file should be sequenced checked and frequently cross referenced to goods received notes, to confirm that goods ordered have been received. (copies of orders cross referenced to goods received notes)(1½)
6. Alternatively the pending file of purchase order forms in the receiving bay can be reviewed for orders which are long outstanding. (1½)

Risk 6

1. Blank order forms should be subject to sound stationery controls. (1½)

(1½ for each valid internal control to the max. of 15 marks, available 18 marks)

QUESTION 8 - CONTROLS OVER CREDITORS MASTERFILE (Exam June 2013)

- 2.2 Describe the **controls** that should be implemented over the new **creditors masterfile** in a **computerised environment**. (15)

QUESTION 8 - MEMO - Creditors Masterfile controls (June 2013) - (15 marks)

2.2. Application controls over the suppliers (creditors) masterfile in a computerised environment 15 marks

Reference: - Jackson & Stent (2012: 11/17 – 11/18)

1. All amendments to be recorded on hardcopy masterfile amendment forms (MAFs). (1½)
2. MAFs to be pre-printed, sequenced and designed in terms of sound document design principles. (1½)

3. The MAFs should be signed by two senior personnel after they have agreed the details of the amendment to the supporting documentation. (1½)
4. Restrict write access to the creditors masterfile to a specific member of the section by the use of user ID and passwords. (1½)
5. All masterfile amendments should be automatically logged by the computer on sequenced logs and there should be no write access to the logs. (1½)
6. To enhance the accuracy and completeness of the keying in of masterfile amendments and to detect invalid conditions, screen aids and programme checks can be implemented:

screen aids and related features:

- Minimum keying in of information. (1½)
- Screen formatting, screen looks like MAF, screen dialogue. (1½)
- The account number for a new supplier should be generated by the system. (1½)

programme checks:

- Verification/matching checks to validate a creditors account number against the creditors masterfile. (1½)
 - Alpha numeric checks. (1½)
 - Data approval check(1½) (for example they must enter either 30 days or 60 days in the payment terms field, not say, 120 days)
 - Mandatory/missing data checks (1½) (for example credit limit and terms must be entered)
 - Sequence check on MAFs entered. (1½)
7. The logs should be reviewed regularly by a senior staff member and the sequence of the logs themselves should be checked for any missing logs. (1½)
 8. Each logged amendment should be checked to confirm that it is supported by a properly authorised MAF and that the details are correct (1½).
 9. The MAFs themselves should be sequence checked against the log to confirm that all MAFs were entered(1½).

(1½ for each valid control to the max. of 15 marks, available 24 marks)

- 2.3 Describe the procedures which employees should follow when conducting a physical year end inventory count as part of good internal control over inventory (20)

2.3 Procedures to follow when conducting an physical year-end inventory count **20 marks**

Reference: - Jackson & Stent (2012: 12/12-12/13)

1. The count staff should be divided into teams of two, with one member of the team being completely independent of all aspects of inventory. (1½)
2. All teams should be given a floor plan of the warehouse which should clearly demarcate the inventory locations for which they are to be held accountable. (1½)
3. All inventory should be counted twice. One of the following methods can be adopted:
 - One member of a team counts and the other records, swapping roles thereafter and performing a second count in the same section to which they were assigned. (1½)
 - Count teams complete their first counts, hand their inventory sheets back to the count controller and sign for the inventory sheets of another section, thereby doing their second counts on a section already counted by another count team. (1½)
4. As items are counted they should be neatly marked by the counters. (1½)
5. Where count teams identify damaged inventory these inventory items must be marked as such on the inventory sheets. (1½)
6. The contents of boxes where the packaging appears to have been tampered with, should be counted and the details noted on the inventory sheet. (1½)
7. A few boxes should be selected at random in each section and the contents compared with the description on the label to confirm that the contents have not been changed/removed and the seal replaced. (1½)

8. The count controller (and assistants) should:
- walk through the warehouse once the count is complete and make sure all items have been marked twice. (1½)
 - examine the inventory sheets to make sure that first and second counts are the same and agree to the quantities recorded on the perpetual inventory system if there is one. (1½)
 - instruct the count teams responsible for sections where discrepancies are identified to recount the inventory items in question. (1½)
9. The count controller should obtain the numbers of the last goods received note, invoice, delivery note and goods returned note used up to the date of the inventory count. (1½)
10. No despatches of inventory should take place on the date of the inventory count. (1½)
11. Any inventory received after the count has begun should be stored separately in the receiving bay, until the count is complete and must not be put into the stores. This inventory must be counted and added to the inventory sheets after the count is complete. (1½)
- The counters responsible for the count sheets should draw lines through the blank spaces on all inventory sheets, and sign each count sheet and all alterations. (1½)
12. The inventory controller should check that this procedure has been carried out(1½) and should sequence test the inventory sheets to ensure that all sheets

are accounted for. (1½)

13. Count teams will only be formally dismissed once the count is complete and all queries have been attended to. (1½)

(1½ for each valid count procedure to the max. of 20 marks, available 27 marks)

QUESTION 10 - INVENTORY – Physical controls**(October 2013) (15 marks)**

- 2.3 Describe the **physical controls** that should be implemented over **inventory** in the warehouse to prevent and detect damage, loss and theft, in a manual system. (15)

QUESTION 10- MEMO - Physical controls over INVENTORY (October 2013) (15 marks)**2.3 Physical controls over inventory in the warehouse****15 marks****Reference:** Jackson & Stent (2012: 12/7)

1. There should be minimum entry and exit points to the warehouse. (1½)
2. Entry and exit to the warehouse should be controlled, for example swipe cards, keypads, turnstiles, gate control, biometric readers. (1½)
3. Security guards should be present at all entry and exit points. (1½)
4. Entry should be restricted, for example buying clerks should not be permitted to enter stores unaccompanied. (1½)
5. The buildings should be secure with a minimum number of windows and a solid structure. (1½)
6. Environmental: areas should be dry, clean, neatly packed, pest free and temperature controlled where necessary. (1½)
7. Surveillance cameras/video recordings should be installed over entry and exit points such as receiving and despatch areas. (1½)
8. Adequate insurance cover should exist to recover financial losses due to damage or theft of inventory. (1½)
9. Fire extinguishers should be installed in high-risk areas considering the high risk of fire of flammable cleaning materials and chemicals. (1½)
10. Regular physical inventory counts should be performed to detect losses in time. (1½)
11. All material variances or inventory losses detected during the inventory count should be investigated. (1½)

(1½ for each valid control to the max of 15 marks; available 16.5 marks)**QUESTION 11 - Application controls –****Payroll NB!!****(18 marks)****PAYROLL AND PERSONNEL OF SAMCOAL**

During the audit of the payroll and personnel cycle of SamCoal, the following information was gathered by your audit senior through discussions with management:

SamCoal currently has a workforce of 878 employees. Of the 878 employees, 21 are salaried managers; 48 are administrative salaried employees; and 809 are permanently employed wage workers.

Mr Roberts is the accountant in charge of the salaries and wages division of SamCoal. All permanent employees (salaried and wage workers) are paid by means of electronic funds transfers (EFTs).

SamCoal uses a reputable computerised payroll system, PayThem-Solutions. When new employees are appointed, they are requested to sign a contract, setting out their conditions of employment, as well as their monthly salary amount (for salaried employees), or their hourly wage rate and number of weekly work hours (for wage workers). Newly appointed employees are also required to complete a form that contains their full names, banking details and tax numbers. As soon as a new employee is uploaded onto the system, an employee number is automatically generated for the employee.

The salaried employees of SamCoal do not work overtime and are simply paid according to the amounts in their contracts. For each wage worker, a magnetic clock card is issued, which is swiped through a magnetic reader on entry and exit every day. A security guard observes that each employee swipes their own card only once upon entry to and exit from the premises. The clock card reader is linked to the PayThem-Solutions system and accurately records the name, employee number and hours worked for each wage worker.

Salaries are paid on the last working day of each month, while wages are paid on a weekly basis. Ms Chauke, the payroll clerk of SamCoal, is responsible for the computerised generation of payslips on the PayThem-Solutions system. A computerised payslip appears on screen for each separate employee. The fields on each payslip are pre-populated by the computer, by pulling the personal information, amount payable and employee number into the payslip.

For the wage workers, each working day consists of nine normal hours of work, paid at one times the normal hourly rate. Wage workers are allowed to work up to three hours of overtime per day, limited to a maximum of 10 hours of overtime per week, as per the Basic Conditions of Employment Act. Overtime is paid at 1.5 times the normal rate. The hours recorded on the clock system is used by the computer to calculate the normal and overtime pay for each wage worker.

Other variables, such as the pay-as-you-earn (PAYE) deductions, are automatically calculated by using the latest relevant tables loaded onto the PayThem-Solutions system.

Ms Chauke provisionally approves each payslip. As soon as she clicks the “approved” button on the screen, this payslip gets lined up in the payroll, which is then ready for the final approval by Mr Roberts. After the final approval by Mr Roberts, the payslips are printed.

REQUIRED:

With regard to the **payroll and personnel information:**

- Describe the **application controls** that you would expect to be in place related to the use and working of the PayThem Solutions system. Use the following format to structure your answer:

	Input (12)	Output (6)
Occurrence and authorisation (validity)		
Accuracy		
Completeness		

(Please note that no processing or masterfile controls are required.) (18)

QUESTION115 – Memo – Payroll (18 marks)

- Application controls**

2 Presentation marks awarded for table format. (2)

	Input	Output
Validity (All transactions have occurred and are authorised.)	<ul style="list-style-type: none"> • There should be adequate access controls over the payroll module and source documents: <ul style="list-style-type: none"> - Password controls <i>over wages module</i>. - Segregation of duties. • Activity logs should be reviewed and any un-authorised login attempts should be followed up. 	<ul style="list-style-type: none"> • Output reports such as total hours worked, or total amounts paid, should be authorised by Mr Roberts. (1) • A distribution list of authorised users should exist. (1) • A distribution schedule should

	<ul style="list-style-type: none"> • Staff should be adequately trained to use the system. (1) • Strict recruitment policies should be in place with regards to employing competent staff. (1) • Input data for example, new employee details should be authorised by means of passwords. (1) • Limit and reasonableness checks should be performed on the hours on the clock cards. (1) • Override reports should be generated and reviewed on a regular basis. (1) • Any changes to data such, as hours worked or employee detail should be authorised by management. (1) • All input documents (i.e. information of new employees) should be scanned by Mr Chauke, for authorising signature. (1) • Hours worked should be approved by the supervisor (either by signing it or electronically or by printing out the clock sheets and manually signing it). (1) • Exception report should be generated if the total number of clock ins does not equal the clock outs. (1) • Exception report should be generated if number of clock ins exceed the total number of wage workers. (1) 	<ul style="list-style-type: none"> exist, stating which output should be generated when. (1) • A console log should be maintained listing the out-put produced. (1) • Exception reports such as total hours worked exceeding normal working hours, should be reviewed by Mr Roberts. (2) • There should be proper access controls to the location of printers. (1) • Staff should sign for receipt of their payslips. (1)
Accuracy NB!!!	<ul style="list-style-type: none"> • The computer should perform edit checks: <ul style="list-style-type: none"> – Limit and reasonableness checks should be performed on the hours clocked (over time limited to 10 hours). – Alpha-numeric checks should be performed (dates and hours can only be numeric). – Sign checks (hours worked can't be negative). – Field size checks (dates) etc (yyyy/mm/dd). – Screen prompts ("are you sure?") – Arithmetic checks should be performed on all calculations. – Field presence checks (to ensure all critical input fields are present). Maximum (5) • Financial and hash totals, as well as record counts, for data transmitted from clock system to the PayThem-Solution System. (1) 	<ul style="list-style-type: none"> • Reconciliation of output (payslips) to in-put (hours worked/pay rates). (1) • Output should be reviewed by Mr Roberts for reasonableness, and accuracy of calculations. (1) • Control totals of hours worked should be compared (output to input). (1) • Exception reports such as total hours worked exceeding normal working hours, should be reviewed by Mr Roberts. (1)

	Input	Output
	<ul style="list-style-type: none"> • Source document design (payslips and em-ployee info) and screen layout should be user friendly. (1) • Information (such as rates and employee details) should be pre-populated from the masterfile. (1) 	<ul style="list-style-type: none"> • The accuracy of postings to the general ledger should be reviewed by Mr Roberts. (1)
Complete-ness	<ul style="list-style-type: none"> • The list of hours worked should be reviewed by the supervisor to ensure that all employees are included on the list before the payslips are generated. (1) • Field presence checks should be performed, before final submission of the payslips (have all the critical fields been completed?). (1) • Transactions entered should be compared to the data on the masterfile by the computer (number of employees to number of transactions) (1) • Exception reports should be generated, in respect of any outstanding or duplicated infor-mation (employee numbers/ banking details), and reviewed by Mr Roberts. (1) • Mandatory fields should be used to ensure that no information is left out. (1) 	<ul style="list-style-type: none"> • Payslips should be sequentially numbered and any missing numbers should be followed up by Ms Chauke. (1) • Document count (e.g. if 500 workers, then 500 payslips). (1) • Reconcile output and input (number of payslips to number of employees). (1) • End of report messages should be generated for out-put from the clock system and the PayThem-Solution system. (1)
	Available <u>27</u> Maximum <u>12</u>	Available <u>17</u> Maximum <u>6</u>

Available 46

Weekly wage pay-outs and clocking system

Speedsew is particularly susceptible to fraud during wage pay-outs due to the large amounts of cash that are paid out to the workforce every week. The cash wages are handed out in envelopes by the shift foreman on Friday afternoons.

Another significant risk of fraud to the company is the clocking of fictitious hours. This occurs when employees illegally clock in on behalf of one another by swiping a fellow employee's clock card at the manufacturing plant entrance in his/her absence.

REQUIRED:

- | | | |
|------------|---|--------------|
| 1.3 | Advise the management of Speedsew on the internal controls that can be implemented with regard to the wage packet preparation and pay-out of cash wages to ensure good control over wages. | (18) |
| | Controls over unclaimed wages must also be included in your answer. | |
| 1.4 | Recommend an alternative to the physical cash pay-out that Speedsew could consider as a means of paying wages in order to reduce the risk of fraud and theft of cash. | (1.5) |
| 1.5 | Provide an example of biometric data in a computerised clocking system and explain one advantage thereof. | (2.5) |

1.3 Internal control over the wage packet preparation and pay-out of wages 18 marks

Reference: Jackson & Stent (2012: 13/12)

1. Wage packets should be made up by two wage department members. (1½)
2. On delivery of the payroll and pay packets to a section, the section head should:
 - agree the number of paypackets to the payroll(1½)
 - sign the payroll to acknowledge receipt (1½)
3. The pay packets and payroll should be locked away until pay-out. (1½)
4. The wage pay-out should be conducted by at least two employees. (1½)
5. Employees should
 - present identification prior to receiving their pay packets (1½)
 - acknowledge receipt of their wage packet by signing the payroll (1½)
 - count their cash and immediately report any discrepancies to the paymaster. (1½)
6. Employees should not be allowed to accept a pay packet on behalf of another employee. (1½)
7. At the conclusion of the pay-out, the paymaster and foreman who have conducted the pay-out, should
 - agree all unclaimed pay packets to the payroll (1½)
 - enter the details of unclaimed wages in an unclaimed wage register (1½)
8. The unclaimed pay packets and payroll should be retained by the paymaster who should lock them away. (1½)
9. When employees wish to collect their unclaimed wages, they must identify themselves and acknowledge receipt of their pay packets by signing the unclaimed wage register. (1½)
10. Regular independent reconciliations of unclaimed pay packets on hand and the unclaimed wage register should be performed. (1½)
11. Any wages remaining unclaimed after two weeks, should be banked. (1½)

(1½ for each valid control to the max of 18 marks; available 22.5 marks)

1.4 Alternative means of payment of wages

1.5 marks

Reference: Study guide p 97; Jackson & Stent (2012: 13/24)

1. To protect the company from this risk, as well as for the personal safety of employees, a company could pay wages via electronic funds transfer (EFT) (1½) directly into employees' bank accounts or via cheques (1½) made out in the employee's name.

(1½ for each valid alternative to the max. of 1.5 marks; available 3 marks)

1.5 An example and advantage of biometric data in time keeping

2.5 marks

Reference: Jackson & Stent (2012: 13/19)

1. An employee could swipe the identification card of another employee who has not actually come to work thus creating fictitious hours worked. The clocking of fictitious hours can be overcome (1½) by employees having to activate the timing device by presenting biometric data. The most common of these is the thumb or fingerprint (1).

EXAMINATION PAPER MAY 2014 – MARKS ALLOCATED TO EACH TOPIC

The following table indicates the main topics in the study guide, together with the approximate percentage of marks that will be allocated to each topic in the final exam paper. *Remember that this is only a guideline; the actual mark allocation may vary slightly.*

Topic	Percentage of marks allocated to each topic in the exam paper
Topic 1: Corporate Governance and Statutory Matters	25% Compliance and non-compliance of King III requirements in a scenario.
Topic 2: Internal Control	15% - 20%
Topic 3: Business Cycles	Theory applied to all cycles.
Topic 4: Revenue and Receipts Cycle	10% - 15%
Topic 5: Acquisitions and Payments Cycle	10% - 20%
Topic 6: Inventory and Production Cycle	0% - 8%
Topic 7: Payroll and Personnel Cycle	18% - 28%
Topic 8: Finance and Investment Cycle	0%