

**AUE202M**

October/November 2009

**INTRODUCTION TO THE PERFORMING OF THE AUDIT PROCESS
(AUDITING 202)**

Duration : 2 Hours

100 Marks

EXAMINERS :

FIRST :

MRS L GREBE

SECOND :

PROF HJ THERON

Use of a non-programmable pocket calculator is permissible.

This paper consists of **NINE (9)** pages.

This paper consists of the following questions and main topics:

QUESTION	MAIN SUBJECT	MARKS
1	Multiple-choice questions	15
2	The audit of credit sales	25
3	The audit of fixed assets and long-term loans	20
4	The internal controls on inventory and sales	20
5	The audit of wages	20
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NOTE:

The main objective of the examination is to test a candidate's knowledge and ability to apply the study material, although the examiners will also take into account the candidate's ability to organise and present that knowledge in writing and according to an acceptable standard.

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QUESTION 1

15 marks

REQUIRED

For every subsection of this question, you have to choose **one** alternative that you think is the appropriate answer. Answer the subsections of this question in numerical order, for example, as follows:

1.1 A

1.2 B

1½ marks per question

1.1 Which one of the following general internal control measures is **not** an appropriate internal control measure with regard to the signing of and control over cheques?

- A Cancelled cheques should be sent back to the bank.
- B Cheques should be presented for signature together with supporting documents.
- C Cheques above a certain amount should require two signatures.
- D The use of a separate bank account, for example salaries.

1.2 Select the alternative which **best** completes the following sentence:

An audit programme may contain all four of the alternatives below, but it should always include ...

- A audit procedures.
- B sample sizes.
- C particular items to be selected.
- D timing of the tests.

[TURN OVER]

- 1.3** Select the correct alternative in addressing the **completeness** assertion when auditing sales:
- A Sales adjustments during the period under review have been correctly calculated and goods returned and discounts granted have been correctly included in the calculation.
 - B All sales made during the period under review have been recorded and all sales adjustments were taken into account.
 - C The sales journal was casted and cross-casted by three individuals and no errors were noted.
 - D Source documents relating to the sale have been inspected and there were no discrepancies noted by the auditor.
- 1.4** The **best** internal control that an entity can implement to ensure that the bank and cash account is properly accounted for, is:
- A Perform monthly bank reconciliations and follow up on all reconciling items on time.
 - B Agree the bank balance per the trial balance to the bank statement at the end of the year and refer differences to the external auditor.
 - C The petty cash on hand to be counted daily and differences to be followed up with all staff. Lie detector tests may be introduced during interrogations of staff to find out who stole the petty cash.
 - D Confirm by reference to source documents that inter account transfers are valid.

[TURN OVER]

- 1.5** Select the **correct** alternative which completes the following sentence:
The auditor must in order to satisfy himself that the property, plant and equipment do exist:
- A agree the fixed asset register to the amount per the trial balance
 - B cast the fixed asset register
 - C physically inspect the property
 - D enquire from management
- 1.6** Which one of the following general internal control measures is **not** an appropriate internal control measure with regard to **authorisation**?
- A A senior person should be responsible for authorising, by way of a signature, high-value credit sales transactions.
 - B A senior person should be responsible for authorising access to the storeroom.
 - C A senior person should be responsible for checking the accuracy of the information on source documents and the authorisation for the recording thereof.
 - D General authority is sufficient for authorising any routine transaction below a certain value.
- 1.7** Select the **correct** alternative which represents the assertion that relate to the following control objective.
- To obtain satisfaction that all transactions or events which have been recorded, took place and pertains to the entity.
- A Valuation and allocation
 - B Accuracy
 - C Completeness
 - D Occurrence

[TURN OVER]

1.8 Which one of the following alternatives can be regarded as a **weakness** in the internal control measures for cash sales?

- A The person responsible for banking of money from cash sales is also responsible for the capturing of cash sales onto the accounting records.
- B Each cashier is responsible for his own cash register key which allows him access to the money drawer and to the recorded sales figures.
- C All cash sales are recorded on cash registers.
- D A register of daily cash sales is maintained and is reconciled with the cash register reading each day by the accountant.

1.9 Select the alternative which best completes the following statement:

The accounts receivable age analysis is mainly used by the auditor to ...

- A determine the recoverability of accounts receivable.
- B determine the accuracy of sales in the various months.
- C ascertain that cut-off is reasonable.
- D vouch the validity of accounts receivable.

1.10 Select the **correct** alternative with regard to the characteristics of substantive procedures.

- A Substantive procedures provide audit evidence that relates directly to the effective operation of internal controls.
- B The nature, timing and extent of substantive procedures mainly reflect an auditor's judgement concerning inherent and control risks.
- C The method, by which substantive procedures are applied to gather audit evidence, are not influenced by the data-processing methods.
- D Analytical review is a substantive procedure that is only carried out during the final stage of an audit.

[TURN OVER]

QUESTION 2

25 marks

The current global financial crisis left Maseko Investments (Pty) Ltd with huge amounts of trade receivables, as they struggled to make collections of amounts owed from the sales they made. The collection period increased from 30 days to 120 days. The sales for the year decreased by 25% compared to the prior year.

You are part of the audit team to perform the audit of Maseko Investments (Pty) Ltd. During the planning meeting held to strategise the audit, it was noted that trade receivables pose a significant risk to the audit. The audit partner suggested that you perform substantive procedures for the audit of sales and debtors with particular focus on performing a debtors' circularisation.

REQUIRED

Marks

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| 2.1 | Explain the primary risk associated with trade receivables and explain why you consider this as a risk in the audit of Maseko Investments (Pty) Ltd. | (3) |
| 2.2 | Describe the substantive procedures you will perform to audit the credit sales of the company at year end. | (10) |
| 2.3 | Describe the procedures you will follow to perform a positive debtors' circularisation as part of the audit of trade receivables of Maseko Investments (Pty) Ltd. | (12) |

[TURN OVER]

QUESTION 3

20 marks

Zwelethu Consortium Ltd was rated a level 3 Broad Based Black Economic Empowerment (BBBEE) Contributor by an empowerment agency. As a result of this rating, they were subcontracted by Stimela Consortium Ltd, the consortium that won the 2010 bid to build stadiums around South Africa for the 2010 Soccer World Cup. Zwelethu Consortium Ltd was subcontracted to build three of the nine stadiums.

Building these three stadiums will lead to international exposure for the company, as the whole world will be watching the 2010 Soccer World Cup. The management of the company decided to take this opportunity and expanded its entire operations.

Zwelethu Consortium Ltd invested heavily in property, plant and equipment which will be necessary for building the three stadiums, by purchasing machinery and equipment to the value of R56 million for the financial year ending 30 June 2009. Due to assistance to developing companies in South Africa and the BBBEE rating of the company, ABC Bank financed the acquisition of the machinery and equipment by way of a long-term loan for the full amount at a fixed interest rate of 9% per annum. As security for the loan, a mortgage bond was registered against the fixed property of the company.

REQUIRED

Marks

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| 3.1 | Describe the substantive procedures you will perform to audit the acquisition of machinery and equipment during the financial year. | (10) |
| 3.2 | Describe the substantive procedures you will perform to audit the long-term loan from ABC Bank as at 30 June 2009. | (10) |

[TURN OVER]

QUESTION 4

20 marks

After South Africa won the bid to host the 2010 Soccer World Cup, Jono Motaung decided to form a company called Sono Sports (Pty) Ltd that will sell soccer outfits, materials and other related soccer equipment through outlets around South Africa.

Sono Sports (Pty) Ltd buys inventory from wholesalers and sells them directly to the public through outlets around the country. Goods are received at a central warehouse in Soweto and distributed to the different outlets around the country. The entity has contracted Mdluli Transport and Freight (Pty) Ltd to transport the goods to the different outlets.

The following internal control system description was compiled by the audit team during the planning phase of the audit of Sono Sports (Pty) Ltd:

Receiving of goods

Upon receipt of goods at the gate, the security guard signs the supplier delivery note and issues a pre-numbered goods received note (GRN), but does not check the contents in the boxes, as he does not want to break the boxes. The security guard cannot match the goods received notes (GRNs) issued by him to the purchase orders, because the security guard is not given copies of purchase orders, as Sono Sports (Pty) Ltd trusts their suppliers to deliver the correct goods. Mr Jomo Motaung says that there have been no instances since the formation of Sono Sports (Pty) Ltd that the suppliers defaulted on an order.

Warehousing

Any one of the store clerks accepts the goods in the warehouse and signs the goods received note which was issued by the security guard. The goods are then taken to designated shelves for storing. The goods received note and the supplier delivery note is thereafter taken to the main storekeeper. He compares the information on the goods received note with the supplier delivery note. The information on the goods received note is then entered on the perpetual inventory computer system. To ensure the smooth running of the warehouse, all store clerks of Sono Sports (Pty) Ltd have access to all areas of the warehouse. There are security guards and cameras are installed to monitor the premises.

[TURN OVER]

REQUIRED

Marks

- 4.1** **Describe** the weaknesses in the control system implemented at Sono Sports (Pty) Ltd for the receiving of goods and **explain** the risks associated with each of the identified weaknesses. (10)
- 4.2** **Describe** the weaknesses in the warehousing internal control system at Sono Sports (Pty) Ltd and **suggest a solution** on how each weakness can be overcome. (10)

QUESTION 5

20 marks

Elegant Fashion & Textiles (Pty) Ltd is cited as one of the leading clothing wholesalers in the textile industry. The management of Elegant Fashion & Textiles (Pty) Ltd attributes the success of the entity to having a hand on the pulse of developments around the world. The entity prides itself on being up-to-date with all technological developments.

The company employs 200 workers. Complete wage records are kept by the company and workers each receive a weekly cash wage that is paid out by the pay clerk at a central pay point.

You are requested to attend a wage payout of the company and report to the audit manager regarding the working of the internal controls at the wage payout.

REQUIRED

Marks

- 5.1** Describe the **internal controls** that you would expect to be implemented by Elegant Fashion & Textiles (Pty) Ltd during a wages payout. (15)
- 5.2** Name five **computer programme change controls** which can be implement to prevent unauthorised changes to the wages system of Elegant Fashion & Textiles (Pty) Ltd (5)