

**SUGGESTED SOLUTION OCT / NOV 2009**

<b>QUESTION 1</b>		<b>15 MARKS</b>					
<b>1.1</b>	A Jackson & Stent (2007: 13/11)						
<b>1.2</b>	A Study Guide (P67 – P71)						
<b>1.3</b>	B Jackson & Stent (2007: 10/26)						
<b>1.4</b>	A Jackson & Stent (2007: 10/39)						
<b>1.5</b>	C Jackson & Stent (2007: 14/21)						
<b>1.6</b>	B Jackson & Stent (2007: 5/8)						
<b>1.7</b>	D Jackson & Stent (2007: 1/15)						
<b>1.8</b>	A Jackson & Stent (2007: 10/38 -10/41)						
<b>1.9</b>	A Jackson & Stent (2007: 10/33)						
<b>1.10</b>	B Study Guide (P18)						

**QUESTION 2**

**25 MARKS**

**Trade receivables**

**Reference:** Jackson & Stent (2007: 10/31)

**2.1 Primary risk with trade receivables and why this as a risk in the audit of Maseko Investments (Pty) Ltd                      3 marks**

- The primary risk for trade receivables is the risk of overstatement. (1½)
- Maseko Investments (Pty) Ltd could overstate trade receivables in order to improve the net asset ratio (1½) of the financial statements, **OR**
- Maseko Investments (Pty) Ltd struggles to make collections of amounts owed from the sales they made – the balance is already substantially higher than previous years. (1½)

**(Maximum 3)**

**2.2 Substantive Procedures to audit credit sales 10 marks**

**Reference:** Jackson & Stent (2007: 10/34 – 10/35)

- Draw a sample of credit sales invoices and compare each with the corresponding order and delivery note in respect of the name of the client, the description and the quantity of goods dispatched. (1½)
- Inspect the orders selected for approval (1½) by a responsible person.
- Select documented inventory issued in a case where reliable, continuous inventory records have been kept, and follow them up by examining the corresponding delivery notes and sales invoices (1½).
- Trace the sales invoices that you have checked to the credit sales journal and confirm that the particulars agree and that the transaction was correctly allocated (1½).
- Recalculate (1½) the totals of the sales records for selected periods to make certain that postings totals are accurate.
- Check the postings (1½) of total sales to the credit side of the sales account and individual transactions to the debit side of the accounts receivables account.
- Perform cut-off tests (1½) on sales invoices and delivery notes to ensure that the transactions were accounted for in the correct accounting period.
- Calculate the gross profit percentage and compare with prior periods, (or other valid analytical reviews). (1½)
- Inspect the number sequence (1½) of the delivery note for missing and duplicate numbers.
- Compare the amount of the turnover in the income statement with the total of the trial balance and the general ledger. (1½)
- Reconcile (1½) the list of accounts receivables with the

accounts receivables control account and confirm the correctness of the reconciling items.

- Inspect the accuracy of revenue related adjustments, for example discount, returns, VAT etc.
- Inspect the accurate disclosure of revenue in the financial statements according to GAAP.

(Maximum 10)

### 2.3 A positive debtors' circularisation

12 marks

Reference: Jackson & Stent (2007: 10/31 – 10/32)

- Take control of all debtors statements (at month end) and :
  - Test to the debtors ledger and the other way (or to the debtors schedule or age analysis) to determine that a statement exists for each debtor and that a debtor exists for each statement (1½)
  - Select a sample of statements for circularisation (1½)
- For the sample selected send out positive circularisation (1½) by enclosing with the statement a sticker / letter requesting that the debtor confirm the balance directly with the auditor.
- Include a self addressed envelope (1½) for the convenience of the debtor.
- Supervise all the mailing (1½) of the envelopes.
- Perform tests to confirm that the debtors are not fictitious (1½) by looking in the phone book to confirm addresses and by telephonically communicating with the debtors.
- Monitor all replies and 'no-replies' and follow up (1½) on all disagreements.
- Disagreements should be followed up by reference to the source documents, enquiry of the relevant debtor and discussion with management. (1½)
- No replies (1½) should be followed up by enquiry of the debtor concerned and subsequent payments.
- Errors identified should be projected through the entire population to determine the extent of possible misstatements of the overall debtors balance. (1½)

(Maximum 12)

**QUESTION 3**

**20 MARKS**

**3.1 Substantive procedures on the acquisition of machinery and equipment**

**10 marks**

**Reference:** Jackson & Stent (2007: 14/21 - 14/23)

- Inspect minutes of meetings for acquisition authorisation. (1½)
- Review current year budget to ascertain that the capital expenditure was budgeted for and authorised. (1½)
- Inspect the acquired assets physically (1½) and cross reference description and serial number to purchase documentation (fixed asset register).
- Inspect the purchase documentation (invoice, contract) to confirm that it is made out to the client. (1½) Ensure that the documentation is signed and is for the selected assets.
- By inspection of the purchase documentation confirm that the cost of the asset includes: (1½)
  - The correct cost price
  - Cost of instillation and commissioning costs of the assets (if applicable)
  - Correct shipping charges, import duties and insurance (if applicable)
- Through inspection of purchase documentation and the general ledger, ensure that VAT (1½) has not been included in cost (unless client is not a vendor).
- Inspect payment records to confirm that payment (1½) was made for the asset.
- Inspect the dates on all documentation (contracts, invoices) to confirm that the transaction has been recorded in the correct accounting period (cut-off) (1½).
- Inspect insurance (1½) documents or correspondence with insurance companies for any fixed assets which have been added to the list of insured items.
- Trace posting (1½) from source documents (invoices, contracts) to the general ledger to confirm that the transaction

was recorded in the proper accounts (classification).

(Maximum 10)

### 3.2 Substantive procedures on long term loan at year end

10 marks

**Reference:** Jackson & Stent (2007: 14/12)

- Obtain a contract of the loan (1½) between ABC bank and Zwelethu Consortium Ltd.
- Inspect the details of the loan contract (1½) and ensure that it was signed by both parties and that it is in the name of both entities.
- Agree the totals per the contract to the amount recorded on the Trial Balance. (1½)
- Obtain third party confirmations (1½) from ABC Bank for the loans and compare to the amounts recorded on the Trial Balance and the contract.
- Match interest payments on the loans to confirm which interest matches which loan. (1½)
- Enquire of the major source of funding for all the recorded PPE and obtain third party confirmation for all the loans to ensure that the recorded loans are complete. (1½)
- Perform analytical review procedures: (1½)
  - .1. Compare the current year loan balance to the prior year.
  - .2. Obtain explanations from management for any missing loans that were included in the prior year and not in the current year.
  - .3. Compare interest paid to the prior year.
- Recalculate the loan and interest balance. (1½)
- Review minutes of meetings (1½) and financial records for any unrecorded loans and agree the totals to the loan schedule.
- Obtain management representation letter regarding the completeness and value of the loan balance. (1½)
- Confirm the security provided for the bond by performing a deeds search.
- Inspect minutes of meetings for the loan authorisation.

<ul style="list-style-type: none"> <li>Inspect the accuracy of the disclosure of the loan in the financial statements. <b>(Maximum 10)</b></li> </ul>					

QUESTION 4		20 MARKS																		
Weaknesses in the control systems																				
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(Maximum 5)		(Maximum 5)																		

## 4.2 Warehousing

10 marks

Weaknesses	Improvements
The entity does not have <u>restrictions to certain areas</u> of the warehouse which increases the risk of theft. (1½)	Certain areas of the warehouse <u>should be restricted</u> (1½) to certain employees depending on their level of responsibility and authorisation.
As a result of granting free access to all areas of the warehouse to all staff, there seems to be weaknesses in the <u>physical access controls</u> of the entity. (1½)	The entity can install <u>control gates</u> (1½) to certain areas which are sensitive make use of access cards to restrict physical access.
Management does not display <u>professional scepticism</u> (1½) as a result of overly trusting the staff.	Management <u>should set the tone</u> from above regarding adherence to the codes of ethics to ensure a good control environment. (1½)
Goods received <u>notes are not matched</u> (1½) to purchase orders upon receipt of the goods	<u>Information should be matched</u> between goods receipt note to purchase orders to supplier delivery notes. (1½)
There is no <u>segregation of duties</u> . (1½)	There should be <u>segregation of duties</u> between sales, warehousing and despatch/delivery functions. (1½)

(Maximum 5)

(Maximum 5)



<div> <div>QUESTION 5</div> <div>20 MARKS</div> </div>					
<div> <div> <div>5.1 Internal controls over a wage pay-out</div> <div>15 marks</div> </div> <div> <div>Reference: Jackson &amp; Stent ( 2007 : 13/11)</div> <div> <ul style="list-style-type: none"> <li>• <u>Physical security</u> (1½) must exist over cash for disbursement of wages. (Also accept: pay-out must take place in an orderly manner).</li> <li>• The <u>security company</u> must take custody of delivering the cash from the bank to the pay-point on a certain day of the month. (1½)</li> <li>• On delivery of the payroll and paypackets to the respective wage section, the section head should: <ul style="list-style-type: none"> <li>• agree the number of <u>paypackets to the payroll</u> (1½)</li> <li>• agree <u>control totals</u> e.g. number of cards, total hours, on the payroll to the batch register (1½) and</li> <li>• <u>sign the payroll</u> to acknowledge the receipt (1½)</li> </ul> </li> <li>• The amount due to each employee should be recorded on a <u>payslip</u>, (1½) which should be handed to the employee together with the sealed wages envelope.</li> <li>• Each worker should be <u>properly identified</u> (1½) before the particular wage is paid out (official staff card).</li> <li>• Disbursement should proceed in the presence of an <u>authorised official</u>, who supervises the proper distribution of wages envelopes. (1½)</li> <li>• The disbursing clerk should <u>mark off in the wages records</u> all wages that are paid out. (1½)</li> <li>• Employees should <u>sign</u> (1½) the wages record as evidence of having received their wages.</li> <li>• Employees should <u>count their cash</u> (1½) and immediately report any discrepancies to the paymaster. These should be recorded on the payroll.</li> <li>• <u>No employee to sign on behalf</u> of a friend or another employee. (1½)</li> <li>• Wage envelopes not disbursed should be marked as <u>unclaimed</u>. (1½)</li> <li>• The disbursing clerk and an authorised official should <u>check the unclaimed wages to the wages record</u> (1½) and should sign the wages record as evidence of having done so.</li> </ul> </div> </div> </div>					

- The paymaster to take custody of all the unclaimed wages. (1½)
- Unclaimed wages should be banked within a reasonable time frame. (1½)
- Employees who did not claim their wages to be paid out of petty cash (1½) and the amount recorded as such.
- When employees wish to collect their unclaimed wages, they must identify themselves (1½) to the paymaster and acknowledge receipts of their paypackets by signing the unclaimed wage register.

(Maximum 15)

## 5.2 Programme change controls

5 marks

**Reference:** Jackson & Stent ( 2007 : 8/17)

- Request for programme changes should be documented (1½) on pre-numbered, pre-printed change control forms.
- Programme change requests should be evaluated and approved by: (1½)
  - .1. The user department (application changes)
  - .2. The IT manager (application and systems changes)
- Programme changes should be effected by programmers (1½) and not user/operators.
- All documentation affected by the change should be updated (1½).
- The IT manager should review the log of programme changes and reconcile it to the programme change forms. (1½)

(Maximum 5)
