


AUE202M
RAE202P

October/November 2011

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

Duration 2 Hours

100 Marks

 EXAMINERS
 FIRST
 SECOND

 MRS L GREBE
 PROF HJ THERON

 MR CT MATSIMELA
 PROF JM VAN STADEN

Use of a non-programmable pocket calculator is permissible.

This examination question paper remains the property of the University of South Africa and may not be removed from the examination venue

This paper consists of **SEVEN (7)** pages

This paper consists of the following questions and main topics

QUESTION	MAIN SUBJECT	MARKS
1	True/false questions	16
2	Internal controls in revenue & the audit of inventory	24
3	The audit of revenue	20
4	Internal controls in payroll	20
5	The internal controls and the audit of purchases and payments	20
		<hr/> 100
		===

NOTE:

Although the primary purpose of the examination is to test the student's knowledge and application of the subject matter, the student's ability to organise and present such knowledge in written language of an acceptable standard will be taken into consideration by the examiners

[TURN OVER]

QUESTION 1

16 marks

REQUIRED

For every subsection of this question, you have to answer true or false and provide a motivation for your answer

(½ mark for each true / false answer and 1½ mark for each motivation)

- 1.1 Occurrence is an assertion used by the auditor to consider the different types of potential misstatements that may occur about account balances at the period end
- 1.2 One of the audit procedures to perform when auditing a long term loan obtained to acquire a motor vehicle is to inspect the endorsement on the transfer deed at the Deeds Office for registration of the loan
- 1.3 The following is an example of an analytical procedure that can be performed when auditing credit sales for the year under review

"Draw a sample of credit sales invoices and compare each invoice with the corresponding order and delivery note in respect of the name of the client, the description and quantity of goods dispatched"
- 1.4 During an inventory count, when differences are found between the amount recorded per client's perpetual inventory system and the number of inventory items on hand per the physical inventory count, these should be ignored as the amount of inventory per the general ledger is audited
- 1.5 When attending an inventory count at year end the external auditor has to observe that inventory is neatly stacked, with similar items packed together, as well as walk through the premises observing that inventory has been tagged during the inventory count. The auditor ensures that this is done because the client may fraudulently double count some of the inventory items to overstate inventory at year end
- 1.6 During the inventory count at year end the external auditor of JZ Traders should identify obsolete, slow-moving and damaged inventory to ensure that it is valued at market value
- 1.7 In order to ensure that motor vehicles listed in the fixed assets register exist at year end, the external auditor can enquire from the car wash employee if he has washed all the listed motor vehicles in the fixed assets register throughout the year. This will give the external auditor sufficient assurance that the motor vehicle exists

[TURN OVER]

- 1.8 Your audit partner allocated you the investment section of a company to audit and instructed you to obtain external confirmation from the financial institution where the investment is held, saying that audit evidence is more reliable when obtained from third parties than relying on the confirmation thereof from management

QUESTION 2

24 marks

Adams Apple Traders Limited is one of the traders of iPads in South Africa. The entity got the right from the makers of iPads to trade them in South Africa. The year 2011 was not a good year for Adams Apple Traders Limited. The entity only managed to break-even in the current year under audit even though other companies selling the same product made significant gains. As such, your audit team also performed risk assessment procedures as part of the audit.

While performing the risk assessment procedures the audit team noted the following system descriptions that might pose a risk of material misstatement in the revenue cycle of the company's order department:

- 1 Some credit sales orders were not authorised by the credit manager
- 2 Telephonic sales orders were accepted from non-account holders
- 3 Not all sales orders were matched to picking slips and delivery notes

REQUIRED

Marks

- 2.1 Describe, for each of the weaknesses above **two (2) risks** associated with the weakness and suggest **two (2) internal control measures** that Adams Apple Traders Limited can implement to overcome the identified weakness (18)

Use the following format to answer the question and note that marks will be awarded for presentation.

Risks: Describe **two (2)** risks

- 1 1
1 2 (3)

Internal control measures Describe **two (2)** internal control measures

- 1 1
1 2 (3)

- 2.2 Describe the **audit objectives** relating to the audit of the inventory balance as at year end (6)

[TURN OVER]

QUESTION 3

20 marks

Excellent Mobiles and Accessories (EMA) (Pty) Ltd is one of the traders of cell phone handsets and accessories. You are a member of the audit team performing the audit of EMA (Pty) Ltd for the year ended 30 June 2011 and you have been allocated the cash sales section to audit. Your audit senior provided a brief description of the cash sales cycle as follows:

Audit of cash sales

The entity sells cell phone handsets and accessories and has several electronic cash registers in use. The entity made total sales of R25 million in the year ended 30 June 2011, 95% of those sales were cash sales.

At the end of each day the accountant compares the total of each cash register's tally roll with the cash in each cash register and this total, as well as any cash surpluses or shortages, is recorded in a cash sales register. Thereafter the bank deposit slip is prepared and is agreed to the total recorded in the cash sales register, to be deposited the next morning. The total cash sales for each day is recorded in the cash receipts journal (cash book) and agreed to the deposit slip. The cash payments and cash receipts journals (cash book) are reconciled to the bank statement on a monthly basis.

According to your audit senior all procedures relating to the cash count at year end were satisfactorily performed.

REQUIRED

Marks

- | | | |
|------------|---|-------------|
| 3.1 | Describe the substantive procedures you will perform to audit cash sales for the year ended. Assume that the test of controls indicated that the internal controls are operating effectively. | (14) |
| 3.2 | Briefly describe four (4) inherent risks that can be encountered with cash sales transactions . | (6) |

[TURN OVER]

QUESTION 4

20 marks

Excite Summer Wear (ESW) Limited is a company that trades in summer clothing. The company has a factory in Cape Town with the majority of workers being unskilled labour. The entity pays weekly wages to these unskilled workers at the factory.

The management of ESW Limited has identified the following objectives for wages that they want to achieve and has requested that for each of the objectives you recommend internal controls that can be implemented to achieve those objectives.

- | | | |
|---|---|-----|
| 1 | There has been due attendance at work by the relevant employees | (3) |
| 2 | The wage rate used for each specific employee is correct | (4) |
| 3 | The amounts calculated as payable to each person are correct | (3) |
| 4 | The amount paid to a person, corresponds with the amount calculated | (3) |
| 5 | Payments are made to the proper persons | (4) |
| 6 | Evidence that payments are being made to the correct person | (3) |

REQUIRED

Marks

- 4.1 For each of the **six (6) objectives** listed above, describe **internal controls** that could be implemented by management of ESW Limited to achieve that objective.

Use the following format to answer the question and note that marks will be awarded for presentation.

1. **Objective:** *There has been due attendance at work by the relevant employees*

Internal controls:

1 1
1 2

2. **Objective:** *The wage rate used for each specific employee is correct*

Internal controls:

1 1
1 2
1 3

3.

(20)

[TURN OVER]

QUESTION 5

20 marks

You are part of the audit team to perform the audit of Photoshoot Limited for the year ended 30 June 2011. Photoshoot Limited is a company that trades in wildlife photographic equipment around South Africa. Your audit senior allocated the expenditure section for you to audit. The following brief system description was prepared by your audit senior during the planning phase of the audit.

Payment Preparation system description

- The entity has a purchasing department which consists of the purchase clerk, creditors' clerk, purchase manager and the Director of Expenditure. The accounting function is done by the accounting department.
- Monthly reconciliations are performed between individual accounts payable (trade creditors) amounts and suppliers' statements, but for the current year under audit reconciliations were not performed for all individual accounts payable (trade creditors).
- On a monthly basis suppliers sent statements by mail. The mail is opened by the creditors' clerk and normal reconciliations are performed. The creditors' clerk was off sick for three months before the year end and as such there is still mail for three months which was not opened.
- Cheque requisition procedures are followed in preparing payment for the suppliers in order to eliminate the risk that payment will be made to fictitious creditors, or payment of incorrect amounts, or unauthorised payments. The Director of Expenditure relies on the purchase manager to verify all details as he only wants to pay the creditors without having to go through all those invoices and supplier statements. He has other important director duties to perform.

Audit of Accounts Payables (trade creditors) balance

It was noted during the risk assessment procedures that were performed by your audit senior for trade creditors that *valuation* is of a great risk as such your audit senior recommended that you place emphasis on the *valuation assertion* when performing the audit of trade creditors.

For the purposes of auditing the *valuation assertion* the audit senior provided you with the following financial information of the company. The ageing list of individual creditor's balances at year end and the general ledger containing the accruals and creditors control accounts. The following is the balance that was disclosed per the Annual Financial Statement.

	30/06/2011	30/06/2010
	R'	R'
Accounts Payables (trade creditors)	4,000,000	5,000,000

[TURN OVER]

REQUIRED	Marks
5.1 Describe the internal controls that should be present to ensure good internal control over the payment preparation (<i>requisitioning</i>) of credit purchases of the company	(10)
5.2 Describe the substantive procedures you will perform to audit the valuation assertion of trade creditors balance at year end Your answer should be limited to address the valuation assertion <i>Please note that marks will not be awarded for substantive procedures relating to other assertions</i>	(10)