


AUE202M
RAE202P

May/June 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 T MATSIMELA
 PROF JM VAN STADEN

Use of a non-programmable pocket calculator is permissible.

This paper consists of **SIX (6)** pages.

This paper consists of the following questions and main topics:

QUESTION	MAIN SUBJECT	MARKS
1	True / false questions	16
2	The audit of accounts receivable	20
3	The audit of purchases	25
4	The audit of wages	19
5	The audit of property, plant and equipment	20
		<u>100</u>
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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

(1mark for each true / false answer and one mark for each motivation)

- 1.1 The audit objective associated with the **“completeness”** assertion at transaction level is “to obtain satisfaction that a transaction or event which has been recorded, took place and pertains to the entity”
- 1.2 The **“classification”** assertion refers to transactions and events being recorded in the proper accounts
- 1.3 Isolation of responsibility entails that employees must be fully aware of their responsibilities and must be accountable for their performance
- 1.4 According to the Companies Act, it is the appointed auditor's responsibility to carry out at least one inventory count per year at each audit client.
- 1.5 When computerised information systems are modified (upgraded) in order to meet user requirements, changes should be made to the live production program and not to a development program
- 1.6 When performing an inventory count, the auditor mainly addresses the existence and valuation assertions
- 1.7 Omitting non-current liabilities by failing to recognise a new loan and disguising the inflow of cash as income, is an example of fraudulent financial reporting in the finance cycle
- 1.8 Surveillance cameras recording movement at entry and exit points of the inventory warehouse is a control procedure to mitigate the risk of damaged or obsolete stock included in the theoretical perpetual inventory figure

[TURN OVER]

QUESTION 2

20 marks

A trainee accountant proceeds according to the audit programme to positively confirm (circularise) the trade receivables (trade debtors) of Screwed Limited. A sample of trade receivables statements were selected for confirmation after all the trade receivables statements were compared to the individual balances in the debtors ledger and on the list of trade receivables, and the total of the list of trade receivables balances was agreed to the balance on the trade receivables control account. He attached the stickers to the selected trade receivables statements with the request that the balance should be confirmed directly with the auditor. An envelope with the address of the auditor was included so that the confirmation could be easily returned.

He was however very disappointed as only 250 of the 1000 trade receivables selected in the sample returned their confirmations in the specified time. He was also instructed by the audit manager to perform a subsequent receipt testing.

REQUIRED

Marks

- | | | |
|-----|---|-----|
| 2.1 | Explain what is meant by a positive confirmation request | (3) |
| 2.2 | Name and describe the assertions mainly substantiated by an auditor during a positive debtors confirmation. | (4) |
| 2.3 | Explain why it is important that confirmations should be returned directly to the auditor | (3) |
| 2.4 | Describe the further procedures to be performed to follow up on trade receivables to whom positive confirmation requests were sent, but who did not reply | (7) |
| 2.5 | Describe the audit procedures to be performed to conduct the subsequent receipts testing | (3) |

QUESTION 3

25 marks

Mr H Ford is a director of AJH Motors Limited. The company trades in motor vehicles and spare parts.

Mr Ford is of the opinion that the profitability of the company can be improved if better control can be exercised over the credit purchases of the company. Mr Ford is considering the computerisation of the accounting and control functions of the company in future. This particularly includes the implementation of information processing controls for the recording of the credit purchases of the company.

[TURN OVER]

The audit senior lists the following aspects that Mr Ford intends to implement with the computerisation of the recording functions of the credit purchases of the company

- 1 Purchase orders as well as goods received notes issued by AJH Motors Limited will be computerised.
- 2 Purchase invoices will be received from suppliers in electronic format
- 3 Supplier details will be uploaded onto the electronic supplier master file and a unique computer generated account number will be allocated to each supplier. This account number and supplier details will be indicated on the computer generated purchase orders and goods received notes, which will enable the electronic matching of purchase invoices to purchase orders and goods received notes.
- 4 Monthly accounts payable reconciliations, month to month balance reports, as well as mathematical accuracy calculations of invoices will now be performed automatically by the computerised credit purchases accounting system
- 5 The transaction processing will automatically be posted to the general ledger system resulting in individual invoices being posted to the purchases account in the general ledger. This will enable the electronic matching of inventory purchased to source documents such as purchase invoices and goods received notes

You are part of the audit team performing the year-end audit of AJH Motors Limited for the year ended 28 February 2011 and you are assigned to the audit of the credit purchases

REQUIRED

Marks

- | | | |
|-----|---|------|
| 3.1 | Describe the information processing controls (application controls) that can be implemented at AJH Motors Limited to ensure good control over the recording of credit purchase transactions in a computerised environment | (10) |
| 3.2 | Describe the substantive procedures that you would perform to audit the credit purchase transactions of the company | (15) |

QUESTION 4

19 marks

You are part of the audit team responsible for the year-end audit of ABC Traders Limited, a company in the retail industry. You were assigned to assist with the wages section of the audit.

Your audit senior compiled the following notes regarding the wages system

The accounting section of ABC Traders is staffed by sixteen employees. One of the clerical assistants Mr Elf Ntombela, who normally works in the marketing section, currently handles the administration of the wages to be paid to the 120 employees of the company

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- Employees of ABC Traders are paid on a weekly basis on Fridays. The wage week runs from Thursday morning to Wednesday afternoon. Mr Elf Ntombela calculates the total hours worked for the week by each employee from the information on daily clock cards. He then accesses the wages program on the computer using the general accounting section password and enters the total hours worked against each employee's name. Mr Ntombela also maintains a hard copy of each employee's personal file. The general accounting section password provides all sixteen employees in the accounting section with access to the wages programme and the employee master file to be able to easily keep the employee master file up to date.
- The audit senior obtained audit evidence that the clock cards are properly controlled and that hours worked according to clock cards are reliable and authorised by foremen by means of a signature on each clock card.

REQUIRED

- 4.1 Identify and explain **four** weaknesses in the wages system of ABC Traders Limited and for each of the **weaknesses** identified, describe a **control risk (risk of material misstatement of the financial statements)** associated with the weakness, and an **internal control measure** that ABC Traders Limited can implement to overcome the identified weakness in its wages system.

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

Weakness 1: Explain weakness	(1½)
Control Risk. Describe control risk	(1½)
Internal control measure Describe internal control measure	(1½)

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Et cetera for **Weaknesses 3 and 4**

(19)

[TURN OVER]

QUESTION 5

20 marks

Propco Limited is a building development company operating in the commercial property sector. Operations have recently expanded due to the steady economical growth of the South African economy. As a result, the management of Propco Limited decided to invest in more building equipment to keep up with expanding operations.

The most substantial investment made during the financial year ended 28 February 2011, was the acquisition of a crane to the value of R 3 million. This acquisition was funded by a long term loan from ABC Bank for R 3 million that was paid into the bank account of Propco Limited.

As the total investment in building equipment now presents the largest part of non-current assets in the statement of financial position as at 28 February 2011, management has decided to place more emphasis on internal controls over building equipment.

You are a member of the audit team responsible for the 28 February 2011 year end audit of Propco Limited.

REQUIRED

Marks

- | | | |
|-----|--|------|
| 5.1 | Name five details on the purchase contract that you will inspect during your audit of the acquisition of the new crane. | (5) |
| 5.2 | Name five other source documents that you will inspect during your audit of the acquisition of the new crane. | (5) |
| 5.3 | Advise the management of Propco Limited on the internal control measures that should be implemented to ensure good internal control over the purchase of new cranes , as well as over their existing building equipment . | (10) |