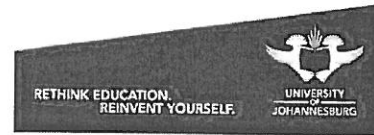


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UNIVERSITY OF JOHANNESBURG

AUDITING 3A

FINAL ASSESSMENT OPPORTUNITY

10 June 2014

FIRST EXAMINERS: Ms Rozanne Smith
Ms Belinda Brandt

SECOND EXAMINER: Prof Ben Marx

EXTERNAL MODERATOR: Andre van der Zwan

TOTAL TIME: 2 hours and 30 minutes

TOTAL MARKS: 125 marks

INSTRUCTIONS:

1. This paper consists of **eight** pages. If your paper does not contain all the pages, please put up your hand so that a replacement paper can be handed to you.
2. Answer all the questions.
3. Calculate the time that you should spend on each question and part of a question by multiplying the number of marks by 1.2 to determine the time, in minutes, available for each question. Adhere to these time constraints in order to finish the paper in the given time.
4. Delete all (even single open lines) open spaces on your answer sheets with pen. Pages on your answer sheets that contain open spaces will be marked as such and those pages will not be eligible for a remark.
5. No tippex or pencil may be used on your answer sheets. Pages on your answer sheets that contain pencil or tippex will be marked as such and those pages will not be eligible for a remark.
6. All the examination regulations of the UJ and the policy document for students of the Department of Accounting will apply before, during and after this test.
7. The neatness, disclosure and presentation of your answers will be taken into account when marking your paper.
8. Read the questions carefully. If you are required to provide explanations, you must use full sentences.

QUESTION 1**(40 MARKS)**

Ubunthu (Ltd) (hereafter Ubunthu) is an advertising company that is listed on the Johannesburg Stock Exchange (hereafter JSE). Ubunthu manufactures large billboards for advertising next to the highways across Southern Africa. Ubunthu manufactures billboards in their factory that is situated in Krugersdorp, Johannesburg. Ubunthu was established in 2004 by Mark Edward (the current CEO), and the company has grown rapidly over the past few years.

Joy Fakuda was recently appointed as the internal auditor at Ubunthu, to assist them with the control environment within the organisation. Before Joy performed any test of controls on the control environment she arranged a meeting with Mark Edward to gain an understanding of the organisation and the controls that they have implemented. Due to the nature of the company, there are a few distinct departments within the organisation and Joy's goal was to focus on the controls in these departments. These departments include: Investing in new assets for the factory, manufacturing of billboards and the human resources department. During her meeting with Mark he provided her with the following information on the mentioned departments.

**Meeting with Mark Edward
6 January 2014
Office Park 7
Block D
Wentworthpark**

For the investment in assets Ubunthu has implemented the following internal controls to ensure that all transactions are done according to the company's policy:

1. All fixed asset purchases are supported by a fixed asset requisition and a capital budget;
2. Fixed assets are recorded in a fixed asset register and recorded assets are regularly compared to physical assets by an independent senior official;
3. Purchases of fixed assets are authorised by senior management on a sequentially numbered fixed asset requisition, and missing numbers are regularly followed up;
4. The investment in assets is authorised by the board of directors and recorded in the minutes of meetings of the board of directors;
5. Fixed assets are recorded at the amount as per the invoice received from the supplier;
6. Depreciation and other calculations are done by computer with a program, and the computer program was tested beforehand;
7. All purchases and sales of fixed assets are recorded in the fixed asset ledger accounts and the fixed asset register from the source documents;
8. The fixed asset register is reconciled with the control accounts in the ledger on a regular basis by the accountant. It is also reviewed by the financial manager;
9. Fixed assets are classified into the respective categories according to company's policy;
10. Improvements are capitalised as fixed assets and clearly distinguished from maintenance.

The manufacturing of billboards takes place as follows:

A pre-numbered order is requested for the issue of raw materials for a particular production run. The pre-numbered order is prepared by the foreman of the raw materials storeroom. All

issues of raw materials are accounted for on the production summary sheet, and are also listed on the completed production report on a daily basis. A copy of the completed production report is sent to the accounting department every day.

Movement of components through the production process as work in progress:

The time that is spent on each stage of production, by production employees and in machine time, is captured by the storeman on a loose piece of paper. He then ensures that he sends the piece of paper to the accounting department in order for them to capture the time spent on each stage of the production.

At the end of each month, the total time recorded on the production summary sheet, is reconciled to the total hours worked by production staff. Any differences are sorted out during month end.

No billboards are inspected for quality before they pass to the next stage, as Ubunthu has perfect controls during the production process, thus resulting in no flaws in the billboards that they manufacture.

Transfer of manufactured goods to finished goods inventory:

Once the production process is complete the produced billboards are transferred to the finished goods store.

The raw materials, labour and machine hours worked, as well as overhead allocations on the completed production report is inspected by the foreman to ensure all production charges are correctly recorded. Any differences are authorised by the financial manager, before the goods are physically transferred to and accepted by the finished goods inventory stores staff.

The storeman authorises, by signature, the transfer of the manufactured goods to inventory.

Acceptance of the goods into finished inventory is acknowledged by the inventory store staff through the signing of the finished goods report.

The following process is followed during the payment of wages to factory personnel:

1. The preparation of wage packets:

- The preparation of the pay-packets is done by the foreman every Friday morning of the month. He ensures that all the cash is kept safe and is safeguarded against theft. The foreman also ensures that the details of each employee are written on the pay-packet, such as the name, surname and employee number.

2. The pay-out:

- The foreman ensures that all the pay-packets are given to the respective employees. He asks the staff to assist him in the process of identifying all of the employees as he does not know everyone. He asks the staff to divide into groups based on the production groups that they work in, and then nominate an employee to collect all of the wages for that particular group. The nominated employee will also sign as proof of receipt of the pay-packets.

3. Unclaimed wages:

- At the end of the pay-out the foreman agrees all unclaimed pay packets to the payroll. Once all employees who have not claimed the pay packets have been identified, details of unclaimed wages are written on a piece of paper to be handed over to the accounting staff the following Monday.
- All the unclaimed wages and payroll is given to the security guard to safeguard over the weekend until the security company collects it on the Monday morning.

After no further questions from Joy, the meeting was adjourned at 12:45

You are required to:

- a) From the above scenario, provide the test of controls that the internal auditor (Joy) should perform on the investment in assets. (10)

Internal control	Test of control
Please take note you are NOT required to re-write the internal controls. You are required to list the number of the control in this column as per the scenario.	You are required to provide a detailed description of the test of control in this column. If the internal control and test of control do not correspond you will not receive any marks.

- b) Identify the weaknesses in the manufacturing of the billboards and for each weakness identified, provide an internal control that should be implemented. (19)

Your answer should be in tabular format, as indicated below:

Weakness	Internal Control
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- c) Identify the weaknesses in the payment of wages, and for each weakness, describe the internal control that should be implemented. (10)

Your answer should be in tabular format, as indicated below:

Weakness	Internal Control
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Presentation mark (table) (1)

QUESTION 2

(20 MARKS)

Your best friend (Simpiwe Love) is the internal auditor at Storage for You (Pty) Ltd (hereafter SFY). SFY provides safe storage space to the public to store any goods that they might not have space for at their homes. The storage is safe and affordable. The company started out in 2008 with only one warehouse that consisted of 40 smaller storerooms. Over the past few years the company has grown rapidly and purchased 7 more warehouses with 65 storerooms each. Because of this rapid growth in the business the Chief Executive Officer (Wayne Fish) decided to upgrade and change their computerised system to accommodate for the large volumes of transactions that take place. The CEO provided Simpiwe with the following description of how the system change took place and was implemented.

- The system changes were requested by the Information Technology (hereafter IT) auditor in a letter from the audit firm;
- The changes were approved by the IT clerk;
- The change forms were signed off by the accountant;
- After the changes were made, the IT clerk tested the changes to determine if it was made as per the approved change request and is working effectively.

After the system was upgraded and changed according to the needs of the auditor, Wayne also decided that they had to implement some proper access and business continuity controls to ensure that all of the confidential information is protected and to ensure that they would have back-ups in place should their system crash.

SFY implemented only the following business continuity controls:

- Data is backed up regularly and kept off-site in a fireproof safe;
- The entity's server room is air-conditioned to ensure that the servers do not overheat resulting in the loss of vital data;
- Protection against the elements;
- All the relevant emergency plan & disaster recovery procedures were implemented;
- Adequate insurance was taken out.

Your friend, Simpiwe asked you to assist him with the following, thus you are required to:

- a) From the above scenario, identify the weaknesses in the system change that took place. For each weakness, you are required to provide a recommendation. (5)
- b) Name and describe five programmed access controls that should be implemented over terminals. (5)
- c) Identify the business continuity controls that are absent in the above scenario. (9)

Presentation mark (1)

QUESTION 3

(45 MARKS)

Rebel Farmers (Pty) Ltd (hereafter known as RF) is a farm located in Elandsfontein, Johannesburg. RF grows a wide range of vegetables and fruits which they then supply to Fruit and Veg City and The Food Lover's Market.

Vegetables and fruits are planted according to the seasons in which they grow. Martin, the chief farmer, is a very experienced fruit and vegetable farmer, and knows exactly when to plant and when to pick the vegetables and fruits.

Once the vegetables and fruits are ready for picking, Martin and his assistants pick them and send them to a cold room. The vegetables and fruits should be kept at a certain temperature to avoid them rotting. Simpiwe Nkuna, the head of the cold room, maintains a stock register of all the vegetables and fruits that come into the cold room.

You are an expert in risk management and you have been contacted by the internal auditors of RF to identify the weaknesses and recommend controls in the sales department.

The management of RF presented you with the following system descriptions on their sales department:

Ordering of the vegetables and fruits
<ul style="list-style-type: none">• All orders are placed with the farmer's wife Nicole. All orders are placed either via telephone or email.• As soon as Nicole receives an order from a customer, she writes down the order on a piece of paper that is always placed next to her telephone.• The only details that she asks of the customer, is the customer's name and the description of the vegetables and fruits that the client would like to order.• Nicole then signs the piece of paper and forwards it to the cold room.• RF's customers are allowed to buy on credit. Should new clients want to open an account, the account and the credit limit is granted immediately and the client can start buying.
Dispatching of the vegetables and fruits
<ul style="list-style-type: none">• Upon receiving an order from Nicole, Simpiwe Nkuna starts picking the goods from the cold room by using the piece of paper on which the order was written down on as a picking slip.• He then picks the vegetables and a fruit as per the order placed, and forwards the order to the dispatch department to be packed, labeled and delivered.• Vegetables and fruits that are identified as "out of stock" during the picking process are noted on the order and signed by Simpiwe. No delivery notes are created.• The dispatch division then phones Thabo, the driver, to collect the goods that need to be delivered. He signs the orders attached to the packages he collects as proof of collection.• Upon exiting the premises Thabo waves at the security guard who opens the gate for him.• Upon delivery Thabo presents the order to the customer who then signs the order as proof of receipt and gives it back to Thabo. Thabo drops off the signed copy of the order the following day to the accountant Mrs. Andri du Plessis.
Invoicing of the vegetables and fruits delivered
<ul style="list-style-type: none">• When Mrs. du Plessis receives the order from Thabo, she creates an invoice for the relevant customer.• After generating an invoice Mrs. du Plessis reviews the calculations to make sure that they are correct.

Recording of the sale of the vegetables fruits

- When the invoices are finished, the recording clerk Mrs. Mbasu records the sales to the relevant ledger accounts.

You are required to:

Identify and describe the weaknesses as well as the risk resulting from the weaknesses in the internal controls with regards to the ordering, dispatch, invoicing and recording of the sale of fruits and vegetables. For each weakness and risk provide an appropriate internal control that would address / mitigate to that specific weakness and risk. (40)

Note: You are required to present your answer in tabular format as indicated below:

Weakness	Risks	Internal Control
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Presentation mark (1)

Precision and Interpretation marks (4)

QUESTION 4

(20 MARKS)

You are currently a third year B Com Accounting student at the University of Johannesburg. Your best friend is currently a third year article trainee on the audit of Designer Flowers (Pty) Ltd for the year ended 30 June 2014. She is responsible to evaluate the internal controls over the sales department. Since you are currently the top student in your Auditing 3A class, your friend has asked you to help her evaluate the internal controls that exist in the system. She has provided you with the following information:

The orders for flowers are received from the customers via the telephone. All orders are sent through to Mr. Shabalala, the capturing clerk. Mr. Shabalala informs the customer of the price of the goods ordered, and then enters the prices directly into the system. The following details need to be completed on the system in respect of the order: The date, the name of the client, the quantity of the order, the prices of the flowers, and any discount that was granted to the client. The system inspects the stock availability at the time that the order is placed. The company does not accept any cash sales.

Mr. Shabalala's computer is linked to the main computer that is situated in the data processing department. When an order is received it is entered via a terminal onto an "order pending masterfile" at which time it is given a sequential number. A cross referenced computer generated picking slip is printed out in the stores department. Any changes to the "order pending masterfile" need to be done by the data processing manager on the main computer.

You are required to:

- a) Discuss the application controls which you would expect in the sales ordering system of Designer Flowers (Pty) Ltd, to ensure that the orders received are **accurately** recorded and **complete**. (14)
- b) Design a system of controls that should be in place to ensure that all the changes to the order pending masterfile are valid, complete and accurate. (5)

Presentation mark (1)