



University of Fort Hare
Together in Excellence

**NKUHLU DEPARTMENT OF ACCOUNTING
GOVERNANCE AND AUDITING 2
COURSE CODE: AUD221E**

**FINAL ASSESSMENT OPPORTUNITY
DATE: NOVEMBER 2019**

ASSESSOR: Mrs L Schenk
MODERATOR: Mrs F Mintoor (Internal)
TIME: 3 hours (and 15 minutes reading time)
MARKS: 150
PAGES: 8 pages

INSTRUCTIONS:

1. Answer all the questions.
2. Start each question on a new page.
3. Show all workings clearly – marks are allocated to workings.
4. Only answers in ink will be marked (including workings). Pages where pencil or Tippex were used will not qualify for remarking.
5. Only silent, non-programmable calculators are allowed.
6. Calculate the time that you should spend on each question by multiplying the number of marks for each question 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.
7. Delete all open spaces on your answer sheets with pen. Pages on your answer sheets that contain open spaces will not be eligible for a remark.
8. Students that contravene the rules in the General Prospectus of the University of Fort Hare will be disciplined in accordance with said rules.

Question	Topics covered	Marks	Minutes
1	Revenue and Receivables	28	34
2	Purchases and Payables	16	19
3	Payroll	40	48
4	Production and Inventory	44	53
5	Finance and Investment	22	26
	TOTAL	150	180

This page is provided for you to make notes on during reading time. It is NOT to be handed in and it must therefore not form part of your final solution.

QUESTION 1

28 marks : 34 minutes

Background

Greentool (Pty) Ltd is a manufacturer of a range of garden and agricultural implements. It is a large company with sound internal controls based on the components of internal control namely:

- Control environment
- Risk assessment process
- The Information system and related business processes relevant to financial reporting
- Control activities
- Monitoring of controls

Each of the following pieces of information relates to the revenue and receivables cycle.

1. When launching a new product, Greentool (Pty) Ltd.'s safety committee considers carefully whether user safety requirements for the product have been complied with.
2. Employees in the revenue and receipts cycle have their responsibilities clearly defined and are rewarded for excellent service.
3. Greentool (Pty) Ltd.'s agricultural sales representatives visit farmers in their region. Sales orders from farmers are entered by the salesmen on a laptop computer and sent online to the credit control section in the sales department.
4. The clerk in the credit control section who receives the sales order (point 3 above) will confirm that the farmer is a valid customer and that he is not behind on his payment terms. If all is in order, the clerk will send the sales order information to the sales order clerk for processing.
5. When pickers in the finished goods warehouse have selected items to be transferred to despatch, they are required to sign the relevant picking slip.
6. Sarah Rose is an employee in the credit management section and she is in regular contact with debtors, making sure that they pay on time and that they pay the correct amount. Where a debtor is experiencing financial difficulty, Sarah Rose will work out a payment plan to minimise any losses the company may suffer.
7. When an amendment to the debtor's Masterfile (debtors listing) is required (e.g. addition of a new customer), a debtor's listing amendment form must be completed. The debtor's listing amendment forms are pre-printed and pre-numbered and must be referenced to supporting documentation (credit application).
8. The board of Greentool (Pty) Ltd meets every two months. Some of the items discussed include, new accounts opened, bad debts written off, any debtors who have been handed over, achievements of sales targets.

QUESTION 1 – REQUIRED		Marks	
		Sub-total	Total
(a)	Identify and briefly explain the 6 different types of control activities that are expected to be found in a good internal control system.	12	12
(b)	Identify the component of internal control to which each of the above 8 points relate. Provide a brief explanation for each answer.	16	16
Total			28

QUESTION 2

16 marks : 19 minutes

Background

Bokke (Pty) Ltd, a manufacturer of sporting equipment, is one of a number of subsidiaries in the Sports SA Ltd group. The company purchases only from approved suppliers, both local and foreign. The following audit procedures were carried out on the purchases and payable cycle of Bokke (Pty) Ltd during the year end audit:

1. Selected a sample of foreign creditors at year end, and using the foreign exchange spot rate at year end and supporting invoices, reperformed the foreign currency conversion and compared the results to the amounts recorded in the creditors ledger.
2. Compared the suppliers included on the supplier listing (Masterfile) at the end of the year to the supplier listing at the beginning of the year to identify new suppliers added during the year. Traced each addition to a Masterfile amendment form and supporting approval documentation and inspected the relevant form for the appropriate authorisation.
3. Enquired of the order clerk as to what procedures he follows if he is given a verbal instruction to place an order without the required stores requisition.
4. Observed the "authorised" and "release" procedures being undertaken for the payment of a creditor by electronic funds transfer (EFT), and confirmed by observation, that without the use of unique user names, passwords and "one-time pin numbers" it is impossible to proceed with the payment.
5. Reperformed a sample of creditors' reconciliations at year end.
6. Observed the receiving clerks carrying out control procedures relating to the receiving of deliveries from suppliers, e.g. comparison of the original purchase order details to the delivery note details.
7. Compared the list of creditors at year end for the current year to the previous year end list to identify creditors on the previous year list who do not appear on the current year list, and whose balances are significantly smaller in the current year. Enquire from management regarding differences identified.
8. Selected a sample of purchases from the purchases journal and inspected the dates on the supplier delivery note, goods received note and invoice, to confirm that the goods were received during the current year under audit.

QUESTION 2 – REQUIRED		Marks				
		Sub-total	Total			
(a)	Identify whether the above audit procedure is a Test of Control or a Substantive Procedure.	8	8			
(b)	Where you identify a Test of Control, briefly describe the <u>objective</u> of the control being tested. Where you identify a Substantive Procedure, identify the <u>assertion(s)</u> to which the procedure relates.	8	8			
	Your answer for (a) and (b) should be set out in tabular format. <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%; text-align: center;">(a)</td> <td style="width: 33%; text-align: center;">(b) (i)</td> <td style="width: 33%; text-align: center;">(b) (ii)</td> </tr> </table>	(a)	(b) (i)	(b) (ii)		
(a)	(b) (i)	(b) (ii)				
Total			16			

Background

You are the auditor of African Curios (Pty) Ltd a company which manufactures ornaments made out of ceramic, wire, beads, recycled goods etc. for the export market. The company is situated in rural Eastern Cape. As the ornaments are handmade, the company is labour intensive. Over the last few years, increases in orders from the Far East have resulted in the growth in the number of employees at African Curios (Pty) Ltd to about 170. The workforce is divided into 6 production areas, each of which manufactures a specific range of ornaments. There are three foremen who are each in charge of 2 production areas as well as a production manager, Michael Milton. With the rapid growth in production and employee numbers the original internal control system for wages has become ineffective. You have pointed this out to management in the previous audits but they have shown little concern. Your audit manager has now requested that you compile a report identifying and explaining the weaknesses in the internal control over wages to be submitted to African Curios (Pty) Ltd.

One of your audit team members has prepared the following notes:

1. The production foremen hire and dismiss staff as they feel necessary.
 - 1.1. When a new employee is hired the foreman completes a pre-numbered employment form by filling in the employees name, personnel details, tax information, production area code, and rate of pay. This form is then sent to Taylor Clerk, a clerk in the wage office, who opens a personnel file for each employee. (If an employee is not registered with SARS as a taxpayer Taylor Clerk assists the employee to register as soon as possible).
 - 1.2. When a foreman decides to dismiss an employee (or an employee resigns) the foreman completes a dismissal/resignation form and sends it through to Taylor Clerk.
2. Each employee sits at his/her own workbench to manufacture the artificial ornaments.
3. During the course of the day the foremen walk through the two production areas for which they are responsible and tick off the employees present on a "daily attendance sheet". The names of employees are pre-entered by Taylor Clerk onto the "daily attendance sheets" from the employees' personnel records which she maintains. On Thursday mornings each foreman receives two sets of 5 daily attendance sheets for the coming week (one set for each production area, one sheet per work day).
4. Each employee who is ticked off on the sheet is credited with 8 working hours for the day.
5. Any overtime worked is also entered by the foremen onto the daily attendance sheet.
6. The company works only on weekdays and a working week runs from Thursday to the following Wednesday. Preparation of the payroll (see point 9) and wage packets takes place on Thursday and wages are paid out on Fridays.
7. Early on a Thursday morning the foremen collect up the five daily attendance sheets for the week for each production area and send them through to Thomas Clerk (Taylor Clerk's brother) in the wage office.

8. Thomas Clerk totals all the hours on the daily attendance sheet for each employee and obtains totals for normal hours worked as well as overtime hours worked.
9. He then enters each employee's details, which he obtains from Taylor Clerk e.g. rates of pay, deductions, onto the daily attendance sheet and performs all the casts, extensions and other calculations. In effect the daily attendance sheet becomes the payroll.
10. Thomas Clerk then draws a cheque for the amount of the net wages and passes it to Avuya Ntaha, the financial manager, for her signature.
11. The payroll is filed in weekly order and the wages cheque is cashed by African Curios (Pty) Ltd.'s security department at lunchtime on Thursday. The money is passed to Thomas and Taylor Clerk for preparation of the paypackets on Thursday afternoon.
12. The paypackets are kept overnight in the company strongroom and on Fridays at 12 o' clock they are sent to the foremen who conducts the payouts for their production areas at 1 o' clock.
13. Copies of the payroll are not given to the foremen, but each paypacket has a tear off slip which is signed by the employee on receipt of his or her wages. The tear off slip is retained by the foreman. Employees present identification before receiving their paypacket.
14. The signed tear off slips and any unclaimed wages are returned to the wage office.
15. The signed "tear off slips" are filed with the weekly payroll and the unclaimed wages placed in a locked money box to be paid out once the employee returns to work. (Once again the employee is required to sign the tear off slip).
16. Employees do not belong to a union.
17. Wages constitute the company's largest expense.
18. The company does not wish to computerise their wage system or to use a wage security company as they have their own security department.
19. As banking facilities are limited in the rural area, employees do not want their weekly wages paid into bank accounts; they require that their wages be paid in cash.

QUESTION 3		Marks					
		Sub-total	Total				
(a)	Identify and explain the weaknesses in the payroll cycle of African Ornaments (Pty) Ltd based on the information given above. Your answer should be set out in columnar form as follows:	38					
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;">Weakness</th> <th style="width: 50%;">Explanation</th> </tr> </thead> <tbody> <tr> <td style="height: 40px;"></td> <td></td> </tr> </tbody> </table>	Weakness	Explanation				
Weakness	Explanation						
	<i>Communication and logic</i>	2	35				
Total			40				

QUESTION 4

44 marks : 53 minutes

Background

Glister Ltd (Glister), a company manufacturing gold and diamond jewellery for retail stores, has a standard catalogue from which such stores can order jewellery. Appointed as the internal auditor of Glister, you have been assigned the responsibility of reviewing the company's internal controls over the order, the receipt, the storage and the issue of gold and diamonds (raw materials only). You have received the following information on the current system:

Glister has three vaults (safes).

- Vault One (referred to as The Store) is used for the storage of raw materials. The stores staff, all of whom are trained in the handling and the safekeeping of gold and diamonds, comprise one supervisor and four assistants. Raw materials are removed from the store only upon the verbal authority of one of the production foremen.
- Vault Two is used for the storage of work in progress, when the jewellers are not working on the specific piece of jewellery.
- Vault Three is used for the storage of finished goods until they are dispatched to the retail stores.

Because inventory levels are low, no perpetual inventory records are kept, and the staff do not keep records of gold and diamonds received or issued. A monthly physical inventory count is carried out, by a stores clerk in order to determine the type and quantity of stock used during the month.

After the physical count, the store supervisor compares quantities counted against a predetermined order level, which is set annually, based on the previous year's production averages. If the count for a given item is below that level, the supervisor enters the inventory code on a single copy requisition form, which he then sends to the accounts payable clerk, who prepares a purchase order for a predetermined order quantity for each item, before emailing the purchase order to the supplier from whom the item was last acquired. Once the order has been placed, the requisition form is returned to the stores supervisor for filing.

When gold and diamonds which have been ordered are delivered, they are received at the store by any available staff. They then count the gold and diamonds and agree the quantity to the supplier delivery note, which is initialled, dated and filed in the store in case of a dispute.

QUESTION 4		Marks				
		Sub-total	Total			
(a)	<p>With reference to the receiving of raw materials:</p> <p>i) Identify the control objectives;</p> <p>ii) Identify the consequence if the control is not achieved; and</p> <p>iii) Explain the consequence of the control not being achieved.</p> <p>Your answer should be set out in columnar form as follows:</p> <table border="1" style="width: 100%; text-align: center;"> <tr> <td style="width: 33%;">(i)</td> <td style="width: 33%;">(ii)</td> <td style="width: 33%;">(iii)</td> </tr> </table>	(i)	(ii)	(iii)	10	10
(i)	(ii)	(iii)				
(b)	<p>Identify weaknesses and provide recommendations relating to the <u>ordering, receiving, storage and issuing</u> of gold and diamonds.</p> <p>Your answer should be set out in columnar form as follows:</p> <table border="1" style="width: 100%; text-align: center;"> <tr> <td style="width: 50%;">Weakness</td> <td style="width: 50%;">Recommendation</td> </tr> </table> <p style="text-align: right;"><i>Communication and logic</i></p>	Weakness	Recommendation	32	34	
Weakness	Recommendation					
Total		2	44			

QUESTION 5

22 marks : 26 minutes

Background

Battleship (Pty) Ltd was set up about 12 months ago to manufacture electronic security surveillance devices. Your firm was appointed as auditors and have also agreed to provide guidance on internal controls for the various cycles.

As is quite common, aspects of the finance and investment cycle were somewhat neglected (ignored) in the rush to get the more frequently used systems operational. However, Freddie Maqorba, the accountant, has now approached you for advice on internal controls over property, plant and equipment. He does not require you to design the system but wants you to lay out the main requirements for effective control over this category of non-current assets.

QUESTION 5		Marks	
		Sub-total	Total
(a)	Write a letter to Freddie Maqorba summarising the main requirements for effective control over property, plant and equipment.	20	
	<i>Presentation and layout</i>	2	22
Total			22

End of assessment