

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTANCY

PROGRAMMES

Bachelor of Accountancy (Honours) Degree

JUN 2024

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ADVANCED AUDITING II: AC409 EXAMINATION PAPER

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DURATION: 3 HOURS

INSTRUCTIONS TO CANDIDATES

1. Answer all questions
2. Cell phones are not allowed in the examination
3. Start each question on a fresh page

### QUESTION 1

You are one of three partners in a firm of accountants. Five years ago the firm was appointed as external accountants to a young, successful and fast-growing company, engaged to prepare year end accounts and tax returns. The business had started trading with a handful of employees but now has a workforce of 200, while still remaining below the size of company requiring a statutory audit.

Due to your close relationship with the directors of the company (who are its owners) and several of its staff, you become aware that staff purchases of goods manufactured by the company are authorised by production managers, and then processed outside the accounting system. The proceeds from these sales are used to fund the firm's Christmas party.

**Required:**

Identify and explain the ethical principles that have been threatened in the above scenario and what course should be taken to address the identified issues.

(20 Marks)

### QUESTION 2

You are the auditor of F Ltd, one of Zimbabwe's leading suppliers of furniture that it manufactures at three plants in Kadoma, all of which employ large workforces. Its head office is situated in Rimuka. A company whose management has an excellent reputation in the industry, it has a 30 September financial year end.

The following wages system has been implemented at all three plants:

- Wages, which are paid every Friday, are based on hours worked during the previous week. Each plant has its own wages department. Only the human resources department is centralised at head office.
- New workers are employed by the human resources division at head office only after proper interviews and background checks have been performed. At the start of each working week that is Monday, the foremen at the various plants

hand blank clock cards to their workers, who fill in their names and employee numbers. These cards are then used that working week. The clocking devices are situated at the entrances to the plants, where workers clock in by inserting their clock cards into the clocking device.

- The foremen hand the used clock cards to a wages clerk every Monday morning without checking them. The cards are divided alphabetically among three wages clerks who are rotated every week so that a clerk is not always allocated the responsibility for the same group of workers.

The clerks perform the following tasks:

- They calculate the total number of hours worked by each worker and record this on the relevant clock card; and
- Enter the hours worked per individual by employee number into the weekly wages file on the computer.

After the wages clerks have captured the hours worked, the computer calculates each worker's gross pay, his/her deductions and net pay by using the wage rates and deductions as per the personnel information in a database at head office. Frequent changes are made to this database in order to keep the information up to date. These wage reports are kept in the various wages departments at each plant.

One of the wages clerks at the plant then informs the plant's accountant by phone of the amount needed for the week's net wages. The accountant then prepares a cash cheque for the exact amount, after which the cheque is cashed by a wages clerk.

The computer prints pay envelopes bearing the names and employee numbers of each of the workers to be paid, The wages clerks fill the pay envelopes for those alphabetically-listed employees for whom they are responsible. If any money is left unaccounted for after all the pay envelopes have been filled, the pay envelopes are checked and corrected by the wages clerks. The envelopes are sealed.

On Friday afternoons, the pay envelopes are handed to the relevant foremen for the weekly pay-out. Each foreman pays out the wages to the workers under his supervision, each worker being properly identified before he/she is handed a pay envelope. Unclaimed wages are returned by the foremen to a wages clerk at the plant.

Required:

Discuss the weaknesses in the wages system described above, and recommend improvements in order to rectify each weakness. (40 marks)

### QUESTION 3

You have recently been appointed as the financial manager of Kombi Ltd, the holding company for Nyati Ltd and Ndlovu Ltd.

Kombi Ltd operates two separate, exclusive game lodges in private game reserves adjacent to the Hwange National Park.

The administration, accounting and marketing functions are performed from the sales office in Sanyati.

Sales are driven by on-going marketing initiatives. Bookings are done through local and international tour operators, who in turn take a percentage of the full rate charged to the client as commission. Direct bookings are also made directly with the sales office by repeat guests-.

Sales in the Wider Area Networks (WAN) are recorded in either of two ways:

1. Kombi Ltd uses electronic data interchange (EDI) to conduct business with all local and international tour operators. All EDI communications take place through a value added network service (VANS), that support many companies in the tourism industry-

A clerk in the accounting department prepared the following explanatory notes regarding the EDI transaction.

- Tour operators who have provisional bookings from clients, submit the preformatted request for accommodation to the sales office, using EDI. Logical access is gained to the EDI system on submission of a valid ID and password by the tour operator.
  - The reservation allocation module automatically checks the 'room charts' for availability in the camp for the date and duration of the stay, based on the request for accommodation from the tour operator. If the requested room is available, the reservation allocation module blocks it off on the room chart and sends a confirmation to the tour operator regarding the availability.
  - The tour operator confirms or rejects the booking and sends the confirmation back to the Kombi Ltd via EDI.
  - During the 'check-in' of the guest at the lodge, the EDI system automatically correlates the electronic booking to the 'check-in' and generates a pre-billing invoice on the date of 'check-in'.
  - All invoices are batched by the system and automatically transmitted to the tour operators on the 25<sup>th</sup> day of each month.
2. All other direct bookings are received, recorded and confirmed using e-mail. Due to unauthorised use of Internet and e-mail facility by staff, a computer virus, the new e-mail worm, has infected five computers at Kombi Ltd. The worm W32/Coronex - A, is a mass-mailer worm that uses Microsoft's Outlook e-mail applications to send copies of itself to unsuspecting recipients and arrives as an attachment in e-mail messages.

The Coronex virus modifies the Windows registry. It adds an entry to ensure that it is launched whenever Windows starts, changes the start page for the

Internet Explorer web browser and derives the location of the Windows address book.

**Required**

a) List the control measures that Kombi Ltd should implement to counteract future risks associated with virus attacks.

(8 marks)

b) Discuss the control measures that should be in place to ensure that only valid, complete and accurate invoices are generated and transmitted to the tour operator by the system.

(8 marks)

c) Discuss the issues that should be included in an e-communication policy in order to minimise the risk of misuse of the e-mail facility by staff.

(4 marks)

**[Total: 20 marks]**

**QUESTION 4**

An entity may have business risks relevant to the various transactions in the business cycles or processes. Management is responsible for the risk management of the company, and should implement internal control in order to reduce these risks. They may appoint internal auditors to perform the risk management process internally.

Each risk may have a consequence for, or impact on, the financial statements and /or operations of the business. The auditor is concerned with the risks that might impact directly on the company's financial statements and indirectly on the country's business processes and operations.

The following information is relevant to the company for which you have to supervise the trainee accountants performing the auditing of the sales cycle:

Type of company: Manufacturer and retailer with high volumes and low gross profit margins.

Gross turnover: \$532 936 000

Cash sales : \$137 946 258

Credit sales : \$394 989 742

Number of outlets or branches: 152

Gross profit percentage : 12, 5%

The company operates on a manual system, and batches are sent to head office for processing on to the computerised system. In terms of the system:

- Orders are placed telephonically, whereupon an email is sent to the production line for them to produce the products;
- The products are sent either to the retail outlet or directly to the customer, who signs the invoice as proof of deliver, either paying cash on delivery(COD) or taking the products on credit;
- The credit controller follows up the outstanding amounts after only sixty days; and
- The company does not reconcile the invoices issued to the despatches completed.

Owing to the large volumes of sales transactions, the audit partner has instructed the auditor to identify the risks, and list and explain the consequences.

**Required:**

Identify and discuss the risks, relevant to the information given above, that could occur in the sales cycle and explain the consequences. (20 marks)

**END OF PAPER**