



REFORMED CHURCH UNIVERSITY

FACULTY OF COMMERCE
BACHELOR OF COMMERCE HONOURS DEGREE IN
ACCOUNTING

AUDIT SKILLS THEORY AND PRACTICE
HACC 422

PART 4 SEMESTER 1 EXAMINATION

TOTAL MARKS [100]

DATE: OCTOBER 2024

Time: 3 Hours

INSTRUCTIONS

1. This paper has *six (6)* questions
2. Answer question *one (1)* and *any* other *three (3)*
3. Each question carries *25 marks*
4. Start each question on a new page

QUESTION 1

Raspberry Cooperates an electric power station, which produces electricity 24 hours a day, seven days a week. The company's year-end is 30 June 2018. You are an audit manager of Grapefruit & Co, the auditor of Raspberry Co. The interim audit has been completed and you are reviewing the documentation describing Raspberry Co's payroll system.

Systems notes – payroll

Raspberry Co employs over 250 people and approximately 70% of the employees work in production at the power station. There are three shifts every day with employees working eight hours each. The production employees are paid weekly in cash. The remaining 30% of employees work at the head office in non-production roles and are paid monthly by bank transfer. The company has a human resources (HR) department, responsible for setting up all new joiners. Pre-printed forms are completed by HR for all new employees and, once verified, a copy is sent to the payroll department for the employee to be set up for payment. This form includes the staff member's employee number and payroll cannot set up new joiners without this information. To encourage staff to attend work on time for all shifts, Raspberry Co introduced a discretionary bonus, paid every three months, for production staff. The production supervisors determine the amounts to be paid and notify the payroll department. This quarterly bonus is entered into the system by a clerk and each entry is checked by a senior clerk for input errors prior to processing. The senior clerk signs the bonus listing as evidence of undertaking this review.

Production employees are issued with clock cards and are required to swipe their cards at the beginning and end of their shift. This process is supervised by security staff 24 hours a day. Each card identifies the employee number and links into the hours worked report produced by the payroll system, which automatically calculates the gross and net pay along with relevant deductions. These calculations are not checked.

In addition to tax deductions from pay, some employees' wages are reduced for such items as repayments of student loans owed to the central government. All employers have a statutory obligation to remit funds on a timely basis and to maintain accounting records which reconcile with annual loan statements sent by the government to employers. At Raspberry Co student loan deduction forms are completed by the relevant employee and payments are made directly to the government until the employee notifies HR that the loan has been repaid in full.

On a quarterly basis, exception reports relating to changes to the payroll standing data are produced and reviewed by the payroll director. No overtime is worked by employees. Employees are entitled to take 28 holiday days annually.

Holiday request forms are required to be completed and authorised by relevant line managers, however, this does not always occur.

On a monthly basis, for employees paid by bank transfer, the senior payroll manager reviews the list of bank payments and agrees this to the payroll records prior to authorising the payment. If any errors are noted, the payroll senior manager amends the records.

For production employees paid in cash, the necessary amount of cash is delivered weekly from the bank by a security company. Two members of the payroll department produce the pay packets, one is responsible for preparing them and the other checks the finished pay packets. Both members of staff are required to sign the weekly payroll listing on completion of this task. The pay packets are then delivered to the production supervisors, who distribute them to employees at the end of the employees' shift, as they know each member of their production team.

Monthly management accounts are produced which detail variances between budgeted amounts and actual. Revenue and key production costs are detailed, however, as there are no overtime costs, wages and salaries are not analysed.

Required:

(a) In respect of the payroll system for Raspberry Co:

(i) Explain **five** key controls which the auditor may seek to place reliance on. . (5 marks)

(ii) Explain a test of control the auditor should perform to assess if each of these key controls is operating effectively. (5 marks)

*Note: Prepare your answer using two columns headed **Key control** and **Test of control** respectively. The total marks will be split equally between each part.*

(b) Discuss **five** deficiencies in Raspberry Co's payroll system and provide a recommendation to address each of these deficiencies. (10 marks)

*Note: Prepare your answer using two columns headed **Control deficiency** and **Control recommendation** respectively.*

(c) The finance director is interested in establishing an internal audit department (IAD). In the company she previously worked for the IAD carried out inventory counts, however, as this is not relevant for Raspberry Co, she has asked for guidance on what other assignments an IAD could be asked to perform.

Required:

Discuss the assignments the internal audit department of Raspberry Co could carry out.

(5 marks)

QUESTION 2

Citing relevant examples from an organisation you are familiar with, explain how auditors may determine if inventory discrepancies are material (25 marks)

QUESTION 3

During a review of the company's financial reporting process, you uncover evidence of unethical behavior by a senior executive. This behavior includes manipulating financial results to meet performance targets, which could mislead shareholders and regulators.

Required:

- a) Explain the steps you would take to document and report this unethical behavior while maintaining confidentiality? (7 marks)
- b) Propose how you would engage the Audit Committee and senior management to address the issue and ensure proper action is taken? (8 marks)
- c) Prepare recommendations you would make to strengthen the company's ethical culture and prevent future ethical violations? (10 marks)

QUESTION 4

You have recently been hired as the head of internal audit for a mid-sized manufacturing company. The company has never had a formal internal audit function before, and senior management has requested that you design a robust internal audit framework. They are particularly interested in understanding the various types of audit engagements that the internal audit team could perform, as well as the roles and responsibilities of internal auditors in enhancing governance, risk management, and operational efficiency.

Required:

- (a) (i) Explain the different types of audit engagements that your internal audit department could conduct for the company. (8 marks)
- (ii) Based on the company's size and industry, identify the type of engagement that would be most appropriate, giving a reason? (2 marks)
- (b) Given that the company has never had an internal audit function, explain the internal auditors' contribution to governance, risk management, and internal controls, providing specific examples of how internal auditors would add value to the company. (15 marks)

QUESTION 5

You have been appointed as the head of the newly established internal audit function at a mid-sized manufacturing company. The company has never had an internal audit function before. The Audit Committee has requested your input on the following:

- a) Explain the key elements that should be included in the Internal Audit Charter? (5 marks)
- b) With the aid of a diagram, explain how you would structure the internal audit department? (5 marks)
- c) Formulate a high-level plan for conducting the first internal audit engagement, including how you would determine the audit scope, allocate resources, and report the findings. (15 marks)

QUESTION 6

You are the lead auditor for a medium-sized manufacturing company that has experienced a decline in sales over the past year due to changes in market demand and increased competition. The company's financial statements show a significant decrease in cash flow, and there are concerns that it may face difficulties in meeting its obligations in the coming year. As part of your audit, you are required to assess whether the company can continue as a going concern in accordance with ISA 570 - *Going Concern*.

Required: Explain the actions that you would carry out to try and ascertain whether the entity is a going concern. (25 marks)

END OF PAPER