

Part (a) (i) Identify and describe the risks of material misstatement related to the completeness and accuracy, valuation and allocation of the creditors balance of M4M as at 31 December 2022; and (ii) For each of the risks identified, indicate to which assertion the relevant risk relates. • Present your answer in a table format.		Marks		
Completeness and Accuracy, valuation and allocation assertions related to the creditors' balance				
(i) Risk of Material Misstatement		Marks	(ii) Assertion	Marks
1	Category 2 products' prices change continuously and therefore there is a risk that creditors could be recorded at the incorrect amount.	1	Accuracy, valuation and allocation	1
2	Packaging materials are imported from China. Therefore, there are foreign creditors that need to be revalued at year end , taking the spot rate at year end into account. Therefore, there could be mistakes in the final valuation of the creditors balance.	1	Accuracy, valuation and allocation	1
3	Packaging materials are imported from China. Import duties and complex VAT calculations need to be considered when recording foreign creditors and therefore there is a risk that mistakes could be made when recording creditors.	1	Accuracy, valuation and allocation	1
4	There is a risk that the transport cost is omitted from the creditors balance owed to Pack as the transport cost and shipping fee are owed to a third party and not the courier company directly.	1	Completeness	1
5	As we receive the invoice directly from the Pack, there is a risk that the 10% service fee is calculated incorrectly and the incorrect amount is added to the creditors balance.	1	Accuracy, valuation and allocation	1

6	There is no segregation of duties / no supervision / inexperienced / part-time student, there is therefore a risk that Zama could: easily delete or omit to record and/or record incorrectly invoices and suppliers' statements received via the dedicated inbox, which could impact the creditors.	1 1	Completeness Accuracy, valuation and allocation	1 1
7	There is a risk that reconciling items (between supplier statements and the balance per the creditors ledger) are not being removed once resolved, or never being resolved and thus causing an error in the ledger as the creditor will never adjust if not followed up with.	1	Completeness OR Accuracy, valuation and allocation	1
8	There is a risk that there are goods in transit (packaging material imported) at year end (where ownership has already passed to M4M) that have not been accounted for resulting in understatement of creditors.	1	Completeness	1
9	The is a risk that the invoices are not matched to the GRN/order before posting to the creditor's account.	1	Accuracy, valuation and allocation	1
Available		10	Available	10
Maximum		6	Maximum	6
Communication skills – clarity of expression				1
Total for part (a)				13

Part (b) With reference to the placing of orders and delivery of goods from category 2 and 3 suppliers, as documented in workpaper P001 –

- (i) identify and discuss the internal controls present in the systems description of M4M that you would rely on; and**
- (ii) formulate the tests of control(s) the auditor should perform to assess the relevant internal controls for each control identified in (b)(i).**

- **Present your answer in the following table format:**

(i) Internal control identified	(ii) Test of control
Internal control 1...	Test of control related to internal control 1...
Etc...	Etc...

Marks

- **Assume that CFW will follow a combined audit approach.**
- **Do not include the following in your answer:**
 - **Changes to the list of approved suppliers and approved price list; and**
 - **Segregation of duties between irreconcilable functions.**

(i) Internal control identified	Marks	(ii) Test of control	Marks
1 The ordering function on AccProf is password protected, and only the two purchasing clerks, Victor and Prudence, have access to this module.	1	Obtain an access table/matrix of usernames that have access to the ordering module in AccProf and ensure through inspection that it only relates to Victor and Prudence .	1
		Inspect access logs to confirm only Victor and Prudence obtained access.	1
		Request the clerks to type in incorrect passwords / no passwords to check that the system will not allow access to the ordering function on AccProf if they do (Or the auditor can attempt to login).	1
2 The username and passwords consisting of at least eight characters are used to place an order by the purchasing clerk responsible for the relevant order type (being Victor or Prudence).	1	Request the purchasing clerks to input their passwords together with their usernames and ensure that the passwords are at least eight characters long;	1
		Using valid test account (test data), attempt to create/change the password and confirm that the system does not allow a password of less than 8 characters .	1
3 Only supplier codes obtained from the list of approved	1	With assistance of the purchasing clerks, create fictitious purchase	1

	<p>suppliers are used when placing orders.</p> <p>A standard order form appears on the computer screen once the supplier code is entered into the system, which includes standard details like the supplier's e-mail address, business phone number, physical address and credit terms negotiated with the particular supplier.</p> <p>The purchasing clerk then compares these details to the same details included on the list of approved suppliers.</p>	<p>1</p> <p>1</p>	<p>orders with valid and invalid supplier codes (the valid supplier codes should be obtained from the list of approved suppliers) to ensure that only valid supplier codes are accepted and that order forms cannot be completed for invalid suppliers.</p> <p>When entering a valid supplier code, compare the details that appear on the order form (the contact details, credit terms, etc.) with the list of approved suppliers to ensure that the correct details are included in the automated order form.</p> <p>Enquire from the purchasing clerk what the procedures entail when the details on the system do not match the approved suppliers.</p>	<p>1</p> <p>1</p>
4	<p>A pre-populated drop-down menu is used to complete the description of the items to be ordered on the order form.</p> <p>The purchasing clerk then compares these particulars to the most recently updated standard price list.</p>	<p>1</p> <p>1</p>	<p>With assistance of the purchasing clerks, create fictitious purchase orders (using test data) with valid description of items by selecting items from the drop-down menu and ensure that -</p> <ul style="list-style-type: none"> • a product code and price appears; and • compare the product code and price to the most recently updated standard price list to confirm the accuracy thereof. <p>With assistance of the purchasing clerks, create fictitious purchase orders (using test data) and attempt to type in a description of items that does not appear on the drop-down menu to ensure that it will not be allowed.</p> <p>Enquire from the purchasing clerk what the procedures entail when the details on the system do not match the approved price lists.</p>	<p>1</p> <p>1</p> <p>1</p> <p>1</p>
5	<p>The total amount of the order is calculated automatically by the system.</p>	<p>1</p>	<p>Select a sample from the purchases records, trace through to the electronic order and then re-perform the calculation done</p>	<p>1</p>

	The total value of the order is recalculated by the purchasing clerk before the order is placed with the supplier.	1	<p>automatically of the quantity multiplied by the price of the products entered into the order form to ensure the accuracy of the calculations.</p> <p>Request an expert to review the programming to test whether the program calculates the total amounts correctly.</p> <p>OR Run a fictitious/dummy order through the system and see that the total is calculated automatically.</p>	1
6	Victor pulls a report from AccProf (on a weekly basis) of all orders with no matching goods received notes and then follows up on any outstanding orders discovered by the matching exercise described above.	1	<p>With assistance of Victor, pull a report indicating all unmatched orders and inspect if there are any orders with no matching GRNs. Follow up on these to confirm that Victor did follow up on them.</p> <p>Inspect supporting evidence identified by Victor (e.g. emails correspondence).</p> <p>OR Enquire from Victor how and when he would follow up on outstanding orders and inspect or observe whether he does this to determine whether the control is implemented.</p>	1
7	All items are delivered in a dedicated receiving area .	1	<p>Observe a delivery being made and ensure that deliveries take place in a dedicated receiving area.</p> <p>Enquire from delivery personnel what is the procedures followed if deliveries are not made to the dedicated receiving bay or if there is no access on a particular time to this dedicated delivery area.</p>	1
8	When goods are delivered by suppliers, the quantity and description of the physical products are compared to the delivery note received from the supplier and the original order form by the two receiving clerks.	1	Observe a delivery being made and ensure that the two receiving clerks compare the quantity and description of the physical products with the delivery note received from the supplier and the original order form.	1

			For products received (at delivery), compare the goods with the delivery note and original order to form to ensure that the quantity and descriptions do agree.	1
9	The two receiving clerks who receive the goods delivered by the suppliers, check the quality of the products .	1	Observe a delivery being made and ensure that the two receiving clerks check the quality of the products.	1
10	One of the receiving clerks completes a goods received note on AccProf, indicating the quantity and description of the goods received, and both clerks sign the form electronically .	1	Inspect a sample of goods received notes completed by the receiving clerks for the electronic signatures of both receiving clerks. Compare the quantity and description on the goods received note to the actual quantity and description of the goods received (while observing the receiving clerks receiving the delivery). Extract an exception report of goods received notes completed without two electronic signatures and follow up with management.	1 1 1
Available		14	Available	25
Maximum		12	Maximum	12
Communication skills – presentation				1
Total for part (b)				25

	<p>Part (c) Formulate the substantive procedures that the audit team should perform to obtain sufficient appropriate evidence with regard to the completeness of the creditors balance of M4M at 31 December 2022.</p> <ul style="list-style-type: none"> • Do not address the following in your answer: <ul style="list-style-type: none"> ○ The extent and timing of procedures; and ○ Any procedures related to tax. • Do not perform the following general substantive procedures: <ul style="list-style-type: none"> ○ Obtaining a creditors schedule and recalculating the mathematical accuracy of the schedule; ○ Comparing the total creditors according to the creditors schedule with the creditors balance included in the trial balance and general ledger, the balance of the creditors control account and the creditors balance in the financial statements; ○ Comparing the opening balance of creditors with the closing balance of the previous year's audited financial statements; ○ Inspecting the creditors' accounts in the general ledger for any unusual journal entries and following up on any unusual entries identified; and ○ Requesting a management representation letter to confirm the completeness of creditors 	Marks
	<p><i>Please note, the <u>completeness</u> of the creditors balance includes verifying the <u>validity</u> of payments to creditors.</i></p>	
1	<p>Select a sample of orders/GRN from AccProf and follow them through to the relevant invoices and purchase journal entries captured in the general ledger/creditors ledger to ensure <i>completeness</i> of creditors.</p>	1
2	<p>Select a sample of debit journal entries in the creditor's account in the general ledger, reflecting payments made to suppliers, and compare the cashbook journal entries with the proof of payment / the entry on the bank statement to ensure that the payment was indeed made to the relevant supplier (<u>validity</u> of debit entry translates to <i>completeness</i> of creditors' balance).</p>	1
3	<p>Inspect the cash book / bank statement after year end for any large payments to suppliers. For these, inspect the GRN and delivery note to confirm that if the payment relates to goods received prior to year-end, the corresponding entries were made in the creditor's account.</p>	1
4	<p>Select a sample of purchases from the January 2023 purchase journal (<i>purchases subsequent to year-end</i>) and trace it back to the applicable GRN to confirm that the GRN number is greater than the GRN cut-off number and/or the dates on the GRN and delivery note is after the financial year-end.</p>	1
5	<p>Select a sample of creditors' reconciliations at year-end and test it as follows:</p>	
5.1	<p>Compare the balance per the reconciliation to the balance per the creditor's statement received from the supplier by means of e-mail, related to the corresponding date, to ensure that the amounts agree and accrual is complete.</p>	1
5.2	<p>After getting permission from M4M, obtain external confirmation of the balances per the reconciliation with the individual creditors themselves (<i>especially for creditors where there is no statements, nil balances, major creditors and creditors whose balances is much lower than the prior financial year</i>) to ensure that amounts agree and accrual is complete.</p>	1 1

5.3	Compare the balance on the reconciliation for a specific creditor's account to the creditor's balance of that same creditor on AccProf for the relevant date to ensure that the amounts agree and accrual is complete.	1
5.4	Test the logic of the reconciliation by means of recalculation (to ensure that the reconciling items make up the difference between the balance according to the creditor's statement and the balance according to AccProf and identify any possible missing/incorrect reconciling items).	1
5.5	Compare a sample of reconciling items to the supporting invoices, GRNs and debit notes to identify any instances of reconciling items that result in an understatement of creditors.	1
5.6	For a sample of corrections made by Zama, compare the correcting journal entry to the difference noted on the reconciliation and the supporting documentation to ensure that the correcting journal entry was posted correctly and that the ultimate creditors' balance is complete.	1
6	Obtain exception reports (or use data CAATs to extract) from the system to identify the following, and follow up any exceptions with management:	
6.1	Invoice with no corresponding journal entries (<i>incomplete credit entries</i>);	1
6.2	Creditors on the approved supplier list for which there have been no entries in the control account/creditor's ledger for a period of time (<i>completeness of creditors</i>);	1
6.3	GRN with no corresponding invoice and/or purchase journal entry (<i>incomplete credit entries</i>);	1
6.4	Creditors with zero / debit balances (<i>completeness of creditors</i>).	1
7	For both the 2021 and 2022 financial years, calculate:	
7.1	Each creditor as a percentage of the total creditors' balance. For creditors that make up a significantly smaller percentage of the total creditors' balance , enquire from management why this is the case.	1
7.2	The trade creditors as a percentage of current liabilities. For a significant change in this ratio (smaller % in 2022), enquire from management why this is the case.	1
8	Obtain the creditors list of the 2022 and 2021 financial years and compare the creditors on the lists to identify:	
8.1	Creditors on the 2021 list who are no longer on the 2022 list and follow up any differences through enquiry from management why this is the case; and	1
8.2	Creditors whose balances indicate a significant decrease in value and follow up any differences through enquiry from management why this is the case.	1
8.3	Obtain corroborating evidence (e.g. through inspection of email correspondence with creditors, changes to contracts in place, minutes of meetings for decisions taken, direct confirmation from creditors, etc) for the above differences to substantiate management's explanations .	1
9	Obtain the 2022 financial year-end inventory valuation list and identify inventory items that are possibly indicated as negative, which could indicate that the purchase was never accounted for / indicators at the inventory count where the physical inventory materially exceeded recorded inventory.	1
10	Inspect creditors' correspondence for indicators of disputes and amounts that should be included .	1
11	Inspect the general ledger for 12 payments for periodic expenses to confirm that all accruals has been raised.	1
12	Perform a sequence test for the 2022 financial year on all the GRNs and identify any missing GRNs to inspect of there has been a recording in the purchases journal and creditor raised to the relevant creditor's account for each GRN.	1

13	Enquire from the two purchasing clerks (Victor Mashishi and Prudence Dlamini) on whether any purchases have been done from suppliers that are not on the approved suppliers list and inspect if these creditors are included in the creditors list.	1
	Available	25
	Maximum	12
	Total for part (c)	12
	TOTAL FOR THE QUESTION	50