

Part (a) Identify and discuss the <b>threats to the independence</b> of Lindi and/or Nauru & Partners with regard to the audit of E-buy with reference to the information in the scenario. Do not include the possible safeguards that could eliminate or reduce the threat to an acceptable level.	Marks
1 A <b>personal relationship</b> exists as Lindi is good friends with the CEO (Stephan).	1
2 A <b>family relationship</b> exists, as her husband (Barry) is the financial controller of E-buy.	1
3 These relationships may create: <ul style="list-style-type: none"> <li>• <b>self-interest</b>,</li> <li>• <b>familiarity</b> and</li> <li>• <b>intimidation</b> threats.</li> </ul>	½ ½ ½
4 The treats could be significant as <b>both</b> are able to exercise <b>significant influence</b> over E-buy's <b>financial performance, reporting and cash flows</b> .	1
5 These relationships could also result in <b>her being biased</b> and <b>override</b> her professional and business <b>judgements</b>	1
6 <b>E-buy</b> as audit client will be a <b>significant part</b> of the <b>firm's revenue/boost turnover</b> .	1
7 This may create a <b>self-interest threat</b>	½
8 The threat could be significant as the audit firm will have <b>concerns over losing E-buy</b> as an audit client and therefore <b>revenue</b> .	1
9 <b>10% Deposit on the audit fee</b> have been received before the engagement letter have been signed	1
10 This may create a <ul style="list-style-type: none"> <li>• <b>self-interest</b> and</li> <li>• <b>intimidation</b> threat.</li> </ul>	½ ½
11 The threat could be significant as it may be <b>seen as a loan</b> from a client and not customary or <b>not on normal terms</b> for audit services.	1
12 Lindi is also the <b>engagement partner of Fantastic-online-Shopping</b> , a company that E-buy is planning to take over in the next financial year.	1
13 This may create a <b>self-review threat</b> , as a conflict of interest will exist	½
14 The threat could be significant as she might be <b>required to share information of Fantastic</b> with the directors of E-buy and Stephan (CEO of E-buy) to <b>assist in the take-over</b> .	1
15 Stephan has also asked her to <b>ensure the profits are not too high</b> so that he can purchase the business at a bargain price, and promise her a <b>kick back if the deal goes through</b> and she had something to do with it.	1
16 The <b>provision of other services to an audit</b> client may impair independence,	1
17 This may create: <ul style="list-style-type: none"> <li>• <b>self-review</b>,</li> <li>• <b>self-interest</b>,</li> <li>• <b>advocacy</b> and</li> <li>• <b>intimidation</b> threats</li> </ul>	½ ½ ½ ½
18 The threat could be significant if these are expected to <b>result in significant revenue</b> for the firm.	1
19 As E-buy is a <b>public interest entity</b> (being listed), <b>certain non-audit services</b> is also <b>prohibited</b> (taxation, internal audit, etc)	1
20 E-buy would like to <b>invite</b> the audit team to a <b>rugby event</b>	1
21 This may create a <ul style="list-style-type: none"> <li>• <b>self-interest</b> and</li> <li>• <b>familiarity</b> threat</li> </ul>	½ ½
22 This could be significant or not, <b>depending on the value</b> of such gifts or hospitality, which in this case might be seen/or not as trivial or insignificant	1
23 <b>Co-hosting</b> a stand at the E-Commerce Expo can result in a <b>close business relationship</b> .	1
24 This may create a: <ul style="list-style-type: none"> <li>• <b>self-interest</b> or</li> <li>• <b>intimidation</b> threat</li> </ul>	½ ½

25	The new remuneration policy ( <b>bonus scheme for identifying additional service</b> ) could affect the <b>professional behaviour of staff</b>	1
26	This may create a <b>self-interest</b> threat.	½
27	This could be significant as <b>audit team members are compensated for selling</b> services to audit clients.	1
28	Lindi and Stephan have <b>dinner together</b> which may create a threat to independence.	1
29	This may create a: <ul style="list-style-type: none"> <li>• <b>self-interest</b> or</li> <li>• <b>familiarity</b> threat</li> </ul>	½ ½
30	This could be significant or not, <b>depending on the value of such hospitality</b> , which in this case might be seen/or not as trivial or insignificant.	1
31	E-buy <b>withheld fees</b> from the previous audit client which could impact independence.	1
32	This may result in an <b>intimidation</b> threat	½
33	This could be significant as they could do the <b>same to Nauru &amp; Partners</b>	1
34	Stephan appear to have <b>asked for the appointment of Lindi</b> as the engagement partner, and	1
35	<b>refusing</b> to allow Lindi to <b>contact the previous auditors.</b>	1
36	This may create an <b>intimidation</b> threat to independence.	½
37	This could be significant as he is <b>interfering in the audit</b> and are placing a <b>scope restriction</b> on the auditor.	1
38	The <b>reliance on the accounting staff</b> of E-Buy indicates a <b>lack of professional scepticism</b> which could indicate a lack of independence	1
<b>Available</b>		<b>37</b>
<i>Communication skills – clarity of expression</i>		1
<b>Maximum Total for part (a)</b>		<b>21</b>

<b>Part (b)</b>	<b>Discuss the aspects Lindi should have considered with respect to the integrity of key management and those charged with governance, prior to accepting E-buy as an audit client for FY2017</b>	<b>Marks</b>
1	The executive directors have an incentive to <b>overstate profits</b> as the <b>lucrative remuneration packages</b> are based on increase in earnings year on year.	1
2	The <b>Executive Directors</b> are part of the Board who have awarded them the remuneration packages, which means that they may have <b>influenced the structure of their own remuneration</b> packages to be beneficial for them.	1
3	It appears further that <b>no remuneration committee exist</b> , which should have determined the remuneration policy and practices as good governance practise require.	1
4	It also appear that the <b>executive directors voted on their own remuneration</b> and have such <b>contravene section 75</b> of the companies act (personal financial interest voted on)	1
5	The CEO (Stephan) <b>refused</b> the previous auditor <b>access to certain financial data</b> and as such could be trying to <b>conceal information/suspicious</b> conduct.	1
6	By doing this the directors are also <b>contravening the companies act (sec 93)</b> as the company's <b>auditors have right of access</b> to all financial data in the performance of their duties as auditor.	1
7	The directors do <b>not act ethically by refusing to pay the audit fees</b> of the previous auditors. The reasons stated that the audit took too long does <b>not justify</b> this.	1
8	An <b>audit committee</b> has <b>not been appointed</b> , and accordingly the directors are not complying with the companies' act, which require such for public companies.	1
9	The <b>CEO cannot appoint Nauru &amp; Partners</b> as the auditors of the company. The <b>Board</b> should have <b>appointed a new auditor</b> after the resignation of the previous auditor, which should be <b>ratified by the shareholders</b> at the AGM. Thus the directors are <b>not complying</b> with legislation.	1
10	Given Stephan's actions the impression is created that the <b>Board is controlled by the CEO</b> , without much governance oversight.	1
11	The <b>upfront cash payment</b> to the new auditors for services to be rendered is not normal practice and could be seen as <b>possible bribery.</b>	1
12	The fact that the <b>engagement letter has not been signed</b> when the payment was made further brings into question the directors intention and integrity.	1
13	Stephan (CEO) has requested Lindi <b>not to contact the previous auditors,</b>	1

14	This brings into question whether management is attempting to <b>hide reasons why the engagement should not be accepted</b> . Stephan's integrity is also in question as he is trying to <b>use Lindi's relationship with Fantastic</b> to secure a <b>lower purchase price</b> .	1
15	Given the possible <b>investment</b> , management might be under <b>pressure to obtain good results</b>	1
16	They may further place undue <b>pressure on the audit</b> team in order to obtain an <b>unqualified audit opinion</b> .	1
17	Given the <b>increase in the e-commerce</b> industry, E-Buy's ability to continue as a <b>going concern</b> might come under <b>pressure</b> .	1
18	This might put management under <b>pressure to manipulate</b> the financial statements to ensure good results and <b>maintain growth</b> .	1
19	The invitation to invite the auditors to the <b>rugby match</b> might raise questions regarding managements' integrity, and it could be <b>construed as bribery</b> if the costs were not as trivial or insignificant.	1
20	The <b>proposed B-BBEE scheme</b> by Stephan seems to amount to a <b>fronting arrangement/fraud</b> , and raises further questions on Management and those Charged with Governance integrity, and indication that they are <b>not acting in the best interest</b> of the company and its shareholders.	1
21	Executive Management and the Board <b>lack Corporate Governance understanding</b> and compliance, given the various instances of <b>not complying with King IV</b> (audit committee, executive remuneration, BBEE scheme, etc.)	1
22	Executive Management (prescribe officers) and the Directors <b>do not always act with Care, Skill and Diligence</b> as required by their fiduciary duties of the Companies Act ( <b>sec 76</b> ).	1
23	This could further lead to them being held liable for <b>reckless conduct</b> of the business in terms of section <b>22</b> of the Companies Act	1
24	Non-compliance with the various companies act sections would constitute a <b>Reportable Irregularity</b> casting doubt on managements and the board's integrity.	1
	<b>Available</b>	<b>24</b>
	<b>Maximum Total for part (b)</b>	<b>15</b>

<b>Part (c) Discuss any concerns you may have regarding the quality of the audit of E-buy arising from the discussions at the audit kick-off meeting of 18 January 2018</b>		<b>Marks</b>
<b>1. Audit quality concerns regarding the audit attributed to Lindi as partner:</b>		
1.1	Lindi does appear <b>to not taking the audit quality seriously</b> , which is a requirement of <b>ISQC 1</b> , dealing with the firm's standards for <b>quality control</b> .	1
1.2	The <b>partner</b> is responsible for the <b>quality of audits</b> (ISA 220.8), which is not the case as Lindi is making <b>unreasonable requests and giving inappropriate instructions</b> .	1
1.3	Lindi's <b>integrity</b> is questionable as she has <b>guaranteed</b> that the team members will receive a <b>good rating if they do not exceed the budget</b> , which could in turn negatively impact the audit quality.	1
1.4	Lindi further <b>encourages inappropriate behaviour</b> by encouraging the audit team to <b>take short cuts/do fake auditing</b> , if necessary.	1
1.5	Lindi has taken staff from other audit clients, which implies that there is <b>insufficient staff</b> available to perform the audit.	1
1.6	Also she did <b>not ensure adequate</b> staff with the <b>relevant e-commerce knowledge</b> and skills are allocated to the audit. Limited availability of resources impacts the quality of the audit.	1
1.7	Lindi will not have the <b>necessary time</b> to provide <b>direction, supervision and review</b> of the audit work. This will negatively impact the audit quality.	1
1.8	Lindi <b>lacks of application of professional scepticism</b> as she is placing too much <b>trust</b> in the competence and experience of the <b>accounting staff</b> of E-buy.	1
1.9	The audit has to be completed before 31 March and if <b>not properly planned</b> could lead to <b>fraud and error not detected (tight audit deadline)</b> .	1
1.10	The audited financial statements are required for possible investors in E-buy and as the auditors are aware of this, they could incur <b>liability if the financial statements are misstated</b> , and as Lindi appears <b>not to be aware</b> thereof, she might fail to applying more competence and due care.	1

1.11	Lindi is encouraging the audit team to <b>share confidential information with her friend</b> at Takealot.com.	1
1.12	This may indicate there is a <b>lack of consultation structures in the firm</b> , as required as part of the firm's quality control requirements of ISQC 1.	1
1.11	The <b>engagement letter has not been signed</b> before the audit commenced. This may indicate a lack of quality as the team commences the audit <b>work without having established the terms</b> of the engagement with the client, <b>lack of compliance</b> with quality processes	1
1.12	Lindi requested the <b>audit team not work longer than the budgeted hours</b> and accordingly are encouraging to <b>sacrificing audit quality</b> .	1
<b>2. Audit quality concerns regarding the audit attributed to the audit staff's conduct</b>		
2.1	Engagement team members might ' <b>phantom tick</b> ' so as <b>not to incur overruns</b> and thereby exceed the agreed-upon audit fee.	1
2.2	Engagement team members might <b>not apply their professional scepticism</b> during the audit so to <b>remain within the budget</b> and ensure that audit procedures do not take longer than expected.	1
2.3	Engagement team members might <b>not record all their time</b> , which will encourage inappropriate behaviour in the firm. (unethical conduct)	1
2.4	The audit team members' <b>independence may be impaired by trying to identify additional services</b> to provide to the client, and not focussing on the quality of the audit.	1
2.5	As E-Buy is a listed company and as <b>Public Interest Entity</b> will require an <b>engagement quality reviewer</b> , which appears not to have been the case.	1
<b>Available</b>		<b>19</b>
<b>Maximum Total for part (c)</b>		<b>10</b>

Part (d)	Assume that Nauru & Partners has accepted E-buy as a client and plans to rely on controls. Describe, with reference to the information provided in work paper C01 under the headings (C1 to C5): background, registering a profile, shopping, checkout and payment, the <b>tests of controls</b> you would perform to <b>test the occurrence</b> of <b>E-buy's sales for FY2017</b> .	<b>Marks</b>
<i>Note to markers: The test of control should be described, namely how to test the control to earn the mark, versus merely repeating of the control procedures. This applies to pat d) and e).</i>		
<b>1. Background</b>		
1.1	<b>Firewalls:</b> Attempt to override/pass the firewalls for both the <i>SmartCount</i> system, and the WAN server connection. This can be done by IT audit experts, test data or reprocessing (how).	1
1.2	<b>Access:</b> Enquire from management and staff what controls are in place to prevent unauthorised access to the E-buy server and <i>SmartCount</i> system.	1
	Attempt to access the E-buy server and the <i>SmartCount</i> System by means of test data/reprocessing	1
1.3	<b>Data protection policy:</b> Read and discuss with management/staff to determine adequacy thereof ( <i>This is to ensure that people cannot access the system to initiate an invalid sale.</i> )	1
1.4	<b>Inspect</b> the user <b>access profiles/tables</b> to ensure that only authorised users have access on a least privilege basis to the server and systems.	1
1.5	<b>Password control:</b> Inspect, a copy of the password <b>policy</b> of E-buy to ensure it is in place	1
	By making use of test data/reprocessing test that the <b>password criteria</b> are being met in accordance with the password policy,	1
	• Use of upper case, lower case, numeric and alpha digits, not too long, short, etc; (control over passwords);	1
	• Passwords are changed after a certain period of time.	1
	• Create low level security password as see if system rejects it	1
<b>2. Registering a profile</b>		
2.1	By making use of test data/reprocessing, attempt to create a customer profile without <b>completing all the required fields</b> and confirm that it does not succeed/pass.	1
2.2	By making use of test data/reprocessing attempt to create a customer profile without <b>accepting the terms and conditions</b> and confirms that it does not succeed/pass. (alternatively use CAATS ensure no profiles exist where the customer did not accept T&C)	1
2.3	Create a <b>fictitious profile</b> to verify whether confirmation is received by customer.	1

<b>3. Shopping, checkout and payment</b>	
<i>(Note that mandatory fields etc can be tested via test data or reprocessing, or data analytics)</i>	
3.1 Attempt to finalise a sale transaction by <b>leaving the mandatory address field blank</b> and confirm that it does not succeed/pass.	1
3.2 Attempt to finalise a sale transaction by <b>not providing credit card details</b> and confirm that it does not succeed/pass.	1
3.3 Attempt to complete the payment details field by using an <b>invalid/expired credit card</b> and confirm that it does not succeed/pass.	1
3.4 Using CAATs/reprocessing inspect the sales invoice and dispatch note ledgers/files to <b>ensure transaction is not processed.</b>	1
3.5 For <b>approved credit card purchase</b> , using CAATS/inspection <b>agree the payments to the invoice</b> that is emailed and <b>dispatch note</b> sent to the warehouse manager.	1
3.6 Select invoices from the <b>sales ledger</b> and <b>follow through to</b> (the direction to test occurrence): <ul style="list-style-type: none"> <li>• Invoice;</li> <li>• Credit card payment;</li> <li>• Despatch note;</li> <li>• Valid customer profile (registration document/number)</li> </ul>	1 1 1 1
3.7 Verify that a <b>sale that is not matched</b> to a despatch note is <b>reflected on the exception report.</b>	1
3.8 <b>Enquire</b> from Stephan of the <b>effective operation</b> on the control for listing and follow up on unmatched invoices on the exception report.	1
3.9 Inspect the exception report for the <b>electronic signature of Stephan</b> as approval of the report	1
3.10 Enquire from Stephan <b>who approves the report when he is on leave/absent</b>	1
3.11 Review the transaction/exception report log for <b>approvals not done by Stephan.</b>	1
3.11 <b>Attempt to gain access</b> to the approval function without Stephan's password	1
3.12 <b>Enquire from the accounting department</b> what the <b>process</b> is when Stephan sends them <b>exception reports to investigate and correct</b>	1
3.13 Inspect a sample of exception reports where a customer invoice was issued without an corresponding dispatch note and verify that an <b>appropriate staff member followed up</b> the discrepancy and <b>noted the reasons for it.</b>	1
<b>Available</b>	<b>30</b>
<i>Communication skills – clarity of expression</i>	<b>1</b>
<b>Maximum Total for part (d)</b>	<b>16</b>

<b>Part (e)</b>	<b>Marks</b>
Assume that Nauru & Partners has accepted E-buy as a client and plans to rely on controls. Describe, with reference to the information provided in workpaper C01 under the headings: <b>dispatch of sales and changes to the sale prices of E-buy's products, the tests of controls</b> you would perform to test the <b>accuracy and completeness</b> for E-buy's sales for FY2017	
<i>Note to markers:</i> <i>The required asked test of controls for accuracy and completeness. As different controls are required for these assertions, to achieve these assertions, candidates could be expected to list the test of controls per assertion, and accordingly should be rewarded therefore. However, as certain controls relates to both assertions, the controls should be marked whether listed under the relevant assertion or not.</i>	
Controls listed per assertion: - Completeness - Accuracy	1 1
<b>1. Dispatch of sales (completeness)</b>	
1.1 <b>Discuss/enquire</b> form the <b>dispatch clerks and dispatch controllers the controls in place</b> and the effective working thereof.	1
1.2 <b>Inspect</b> a sample of mobile dispatch <b>devices and confirm that in good working condition</b> to ensure all goods despatched are accounted for.	1
1.3 <b>Observe</b> where the mobile <b>devices are kept</b> and ensure it is secure to <b>prevent unauthorized use.</b>	1
1.4 <b>Observe</b> the dispatch controller <b>checking the goods against the request.</b>	1
1.5 <b>Observe</b> whether the <b>controller seals the box and electronically marking it as being ready</b> for collection, <b>only if the order is complete.</b>	1

1.6	Do <b>test counts</b> of the goods in sealed boxes and <b>compare to despatch note detail</b> .	1
1.7	<b>Observe</b> a collection of the sealed boxes by a Fast Delivery driver and whether that the <b>driver electronically signs the dispatch request</b> on the dispatch controller's <b>mobile device</b> as evidence of receipt.	1
1.8	<b>Inspect exception reports for unmatched dispatch notes</b> and: <ul style="list-style-type: none"> <li>• determine how the <b>issue were resolved</b> by inspecting the note relating to the resolution</li> <li>• Confirm that these were <b>unmatched for longer than 24 hours by checking the time</b> reflected on the report</li> <li>• Confirm that <b>no completed orders are included</b> on the exception report.</li> </ul>	1 1 1
1.9	<b>Discuss the process</b> of resolving <b>unmatched despatch</b> notes with the <b>warehouse manager</b> .	1
1.10	Select <b>dispatch notes from the system</b> (using CAATS) and follow it through to: <ul style="list-style-type: none"> <li>• despatch note <b>signed</b> by the driver;</li> <li>• <b>invoice</b> on the system;</li> <li>• recording of sale in the <b>sales journal</b></li> </ul>	1 1 1
<b>2. Dispatch of sales (accuracy)</b>		
2.1	Using test data test the <b>processing of entries</b> in the sales ledger for the: <ul style="list-style-type: none"> <li>• the accuracy of the <b>prices used from the master</b> file;</li> <li>• the calculation the invoice total (number of goods x price)/using CAATs <b>test calculations</b> on invoice.</li> </ul>	1 1
2.2	<b>Recalculate the invoice</b> total by multiplying the <b>number of goods</b> by the sales <b>price per the master file</b> .	1
<b>3. Changes to the sales prices of E-buy's products (Accuracy)</b>		
3.1	<b>Attempt to make changes</b> to product <b>prices</b> on <i>SmartCount</i> system by means of a <b>password</b> from a person who is <b>not a staff member of the marketing department</b> .	1
3.2	<b>Attempt to approve</b> the product item <b>price changes</b> by using <b>other</b> than Sophia's <b>password</b> .	1
3.3	<b>Inspect the log</b> for product item <b>price changes</b> and confirm that these have been <b>reviewed by Sophia Malala</b> (electronic signature).	1
3.4	<b>Inspect the log</b> for product item <b>price changes</b> and <b>follow it through</b> to the <i>SmartCount</i> system and confirm that it agrees to the amount per the log.	1
3.5	<b>Access E-buy's server</b> and <b>attempt to open the log</b> that deals with prices changes. (test <b>access control</b> to <i>SmartCount</i> system).	1
<b>Available</b>		<b>24</b>
<i>Communication skills – clarity of expression</i>		<b>1</b>
<b>Maximum Total for part (e)</b>		<b>11</b>