

Part (a) With reference to the FMSS database – (i) describe the <u>business continuity risks</u> that CLease is exposed to with regard to the <u>integrated nature of the FMSS and because it is partly operated in the cloud</u>		
1	As part of the system is in the cloud, the FMSS database & software may not be accessible due to: <ul style="list-style-type: none"> the communication connection is not available/unstable; the service provider (cloud) has downtime / crashes or the service provider suspends operations, which will result in temporary shutdown/disruption in operation/not being able to restore backups.	1 1 1
2	Data could go lost/corrupted due to the communication channels and the transmission of data .	1
3	The Database and programmes may come under security attacks through ransomware, virus attacks or hackers, causing unauthorised access to entire system (due to fully integrated nature).	1
4	If there is unauthorised access to data and programmes, this could cause: <ul style="list-style-type: none"> unauthorised changes, loss and/or deletion to <u>data, transactions and balances</u>, located on these servers, causing incorrect and invalid information; FMSS database not functioning correctly if changes to <u>programmes</u> and/or deleting of <u>software</u>, resulting in incorrect/corrupt data; access to confidential client data, which will have an adverse effect on the reputation of CLease, leading to a loss of future business. 	1 1 1
5	Due to access of confidential client data, substantial fines or lawsuits could be imposed on CLease, due to non-compliance with Laws and regulations (IT Laws/ POPI/GDPR) / sued by clients .	1
6	As the FMSS system is integrated and highly automated in nature, <ul style="list-style-type: none"> errors may remain undetected for extended period of time, <ul style="list-style-type: none"> causing <u>financial losses</u> due to undercharging or not accounting for transactions; unsatisfied clients due to overcharging and therefore <u>loss of client base</u>. if a section of the system (branch) is affected it may impact the whole system and vice-versa. 	1 1 1
Available		12
Maximum for part (a)(i)		6

Part (a) With reference to the FMSS database – (ii) <u>identify</u> the application controls that ensure that the processing of information with regard to the <u>client contracts is valid and complete</u> .		
1	Completeness	
1.1	The processing of the loaded information and generation of the sequentially numbered contract (contract cost and invoicing of clients) are automated .	1
1.2	Accounting manager follows up on any missing numbers in sequence.	1
1.3	The FMSS creates a hash total of transactions, which is automatically compared to the hash total generated by the accounting system.	1
1.4	Exceptions in hash totals are generated, reconciled and reviewed by senior personnel.	1
1.5	The FMSS system generates a weekly report with control totals which summarises the total transactions captured or processed for the week; and every Monday the accounting manager reconciles the totals from this report and follows up on differences.	1
1.6	Clients unable to access the client portal on FMSS and enquire the reason, would potentially identify unprocessed contracts.	1
1.7	The FMSS generates a weekly report which contains an exception report section which highlights no interest charged to a contract for the month and the report is reviewed by the accounting manager and who follows up on any unusual activity.	1
2	Validity	
2.1	Log-on authentication through unique logon IDs linked to passwords for each employee (including sales personnel) authorised to access the FMSS.	1
2.2	Limiting or enabling access to the FMSS database and files is based on responsibility/privilege levels linked to individual users' identities.	1
2.3	The system has the ability to draw a report of persons who accessed the system (logs); and also reports that provide an audit trail of daily activities , these are reviewed by accounting manager and follows up any unusual activity or invalid items.	1
2.4	The system automatically blocks the generation of the contract if blank interest rate field / invalid client identification number checks have not been done. (Record comparison and matching done by the system).	1
2.5	The standing data for prices can only be updated with approval of the accounting manager and the marketing director.	1

2.6	The FMSS generates a weekly report which contains an exception report section which highlights duplicate interest charged and the report is reviewed by the accounting manager and who follows up on any unusual activity.	1
3	Completeness	
3.1	System to test the sequence of the contracts and generate an exception report for missing numbers	1
4	Validity	
4.1	Different sales personnel/manager must agree the details captured on the system to the supporting documentation supplied by the client and authorise. (Review or segregation of duties)	1
4.2	An automatic timeout of the contract application after a specified period of time of being inactive.	1
4.3	The system forces the user to log-out after three unsuccessful password attempts .	1
4.4	A Reasonableness/limit test are performed for the period/lease payment amount of the lease (for example should not be 0 years or more than 5 years).	1
4.5	Greying of fields/ Minimum entry of data of information like the vehicle that has been leased should be selected from the database and the description and cost of the vehicle will automatically be inserted	1
4.6	Dropdown list for standard contract prices / all vehicles available to be leased etc., included in the masterfile.	1
4.7	The system automatically blocks the generation of a contract if a valid, sequential asset number are not selected and matched to the transaction / can't select a vehicle which is already linked to a contract.	1
4.8	Alpha-numeric tests performed on the interest rate, period, cost and the user must immediately correct	1
4.9	The system should provide an error message when logging on, indicating that an old or incorrect version of the file/program is used for processing.	1
4.10	Match client details to existing client data (if already a client) to assess validity thereof.	1
	Available	24
	<i>Communication skills – presentation and layout (by assertion)</i>	1
	Maximum for part (a)(ii)	10

Part (b) Describe the substantive audit procedures that you would perform to verify the valuation of the 'net investment in the leases' balance as at 30 September 2017 in the accounting records of CLease		
<ul style="list-style-type: none"> • Exclude substantive audit procedures regarding recognition, initial measurement or classification of the net investment in the leases. • You can rely on the completeness, validity and accuracy of the lease data initially loaded onto the FMSS (i.e. that used to generate the lease contracts). • Ignore the effects of the lease contract with AHire described in workpaper H650. 		
1	General	
1.1	Obtain a signed management representation letter that specifically deals with the accuracy, valuation and allocation of the net investment of the leases account balance.	1
1.2	Obtain a report extracting the following data from the FMSS system: the leased vehicles per asset number with the corresponding values (value of the asset, gross investment, unearned finance income, impairment allowance, opening net investment balance, interest charged, payments, closing net investment balances, duration of the lease, interest rate applicable etc.)	1
1.3	Re-perform the casting of the total gross investment balances and total unearned finance income.	1
1.4	Recalculate the net investment of the leases at 30 September 2017 by deducting the total 'unearned finance income' (interest) amount from the total gross investment amount.	1
1.5	Agree the total closing net investment balance per the report to the balance in the General Ledger and Trial Balance .	1
1.6	Using CAATs perform analytical procedures on the 'net investment in leases' through: <ul style="list-style-type: none"> • comparing the balances to that of the prior year/budget/month-to-month after adjusting for changes • investigate any unexpected findings through enquiry from management, and corroborate their responses with documentation. 	1 1
1.7	Using CAATs identify any anomalies in the data/general ledger for <ul style="list-style-type: none"> • example negative/duplicate values which may indicate misstatements and • follow up through enquiry from management, and corroborate their responses with documentation. 	1 1
2	Detail Net investment balance	
2.1	Using CAATs on the data extracted from the FMSS, <ul style="list-style-type: none"> • recalculate the gross investment balances of each contract (i.e. the undiscounted amount of future lease payments receivable) at 30 September 2017. 	1

2.2	Using CAATs on the data extracted from the FMSS, • recalculate the unearned finance income component of each contract at 30 September 2017.	1
3	Changes subsequent to initial recognition	
3.1	Through enquiry and inspection of contracts / inspection of masterfile amendment logs: • Identify whether there have been new addendums/any changes to lease terms , such as any extension or early termination options (change in the period/lease modifications) in the contract in the subsequent lease data.	1
3.2	Select a sample of payments in the ledger and through inspection agree the amount to the bank statement and the relevant contract to verify the amount / identify changes from the standing data.	1
3.3	PMT : Using CAATs identify any payments in the data/general ledger for variable payments (changing payments) which may indicate a change in the year-end value.	1
3.4	Rate : Select a sample of lease contracts and inspect the contract for the terms and conditions of the payment of the lease to identify any variable lease payments linked to a rate or index .	1
3.5	Residual value : For a sample of new contracts/current contracts, inspect for the existence of any guaranteed or unguaranteed residual value : (i) Calculate the expected residual values of similar assets at the end of the lease term for reasonability and that it has been included in the calculation / consider using an expert; (ii) Inspect industry publications , etc., for trade values of similar vehicles.	1 1
3.6	If any changes in inputs have been identified through performing audit procedures, recalculate the new net investment for the specific lease at year-end using the new values. • Agree to the value for the specific lease and if it does not agree, follow up with management and request adjustment .	1 1
4	Impairments	
4.1	Obtain / Generate the 'overdue payment' report • Recalculate the report for clerical accuracy ; • Identify through CAATS, the lessees who have not paid their accounts (not 12 payments etc.) to identify whether the report is complete and all lessees has been included in the report; • Discuss with management/fleet managers which triggers or events increased the credit risk of those leases and what controls are in place to ensure that all lessees has been included in the report.	1 1 1
4.2	Through enquiries/discussion with management obtain a more detailed understanding of how management use the 'overdue payment' report generated by FMSS to determine the impairment; and determine the extent of impairment accounted for against the net investment account.	1
4.3	Consider whether the policy and the methods/assumptions used by management: • Adhere to the requirement of IFRS (classification of balances) and • Are consistently applied from the previous years.	1 1
4.4	Through enquiry/inspection of documentation consider the management's competence to apply and account for the impairment policy.	1
4.5	Recalculate the impairment (allowance for credit losses) by using management's method (classification of balances) and the 'overdue payment' report and agree to the general ledger amount.	1
4.6	Enquire of management which client accounts have been handed over for collection (confirm directly with lawyers) and inspect whether the net investment account balance for these accounts have been appropriately impaired .	1
4.7	With permission of the CLease, contact the lessees and request confirmation of the value of the amounts owing to CLease / inspect any complaints from lessees of possible mistakes on their accounts.	1
	Available	29
	<i>Communication skills – clarity of expression</i>	1
	Maximum for part (b)	16

Part (c) Describe the tests of controls you would perform on the system of preventative maintenance on the FMSS, as set out in workpaper F410. You can rely on the general computer controls.

	Performing the preventative maintenance	
1	Discuss/enquire from the service manager (who oversees the senior technicians and team of technicians), that the controls listed are in place and that they were working throughout the year. • Discuss exceptions noted/process followed if someone is on leave/ not available .	1 1
2	Attempt to gain access to the approval functions of any person in the process. (senior technician, service manager, client).	1

3	For a sample of repairs performed confirm: <ul style="list-style-type: none"> • there is either a valid maintenance contract in place at the time of the repair and • inspect the client's account to ensure that no costs are allocated by the system. • If no maintenance contract exists, inspect for an approved authorisation by both client and service manager; and • agree to invoice issued to client. 	1 1 1 1
4	For a sample of repairs performed, inspect the access log/report of daily activity generated by the FMSS system on that day, for the digital authorisation/signature/Logon ID of the: <ul style="list-style-type: none"> • Senior service technician as proof that the service has been completed; • Service Manager as proof that the transaction has been concluded; • Client as proof that the client confirms receipt of the vehicle. 	1 1 1 1
5	With the permission of CLease verify that the application controls in place to calculate (and allocate) are working effectively: <ul style="list-style-type: none"> • Recalculate the calculations performed by the system by entering a number of <u>fictitious repair</u> transactions and test whether the system has costed the repairs correctly (based on the standing data) • ensure that the correct costs have been allocated by the system to the correct account. 	1 1 1
6	Through inspection of the log of changes (daily activity) to the system verify that no changes occurred to the application controls over allocation/calculations throughout the period.	1
		Available
		15
		Maximum for part (c)
		14

Part (d) Discuss, with reference to the SAICA Code of Professional Conduct –		
(i) the ethical <u>conduct</u> of the trainee accountant, Prince Charm, regarding his interaction with the tax accountant of CLease		
1	As a trainee accountant , Prince Charm must comply with the SAICA Code of Professional Conduct for Chartered Accountants through the quality control structures and the quality control procedures that are put in place by the audit firm.	1
<i>Integrity & Professional Behaviour</i>		
2	Prince Charm states that he will be able to assist CLease to ensure a positive tax outcome , regardless of being able to do so within the income tax act (laws and regulations). Implying non-compliance if that ensures a positive outcome and consequently he will not be honest and truthful, which may discredit the profession. (150.1).	1
<i>Confidentiality</i>		
3	Prince Charm by sharing confidential information potentially breached a fundamental principle with regard to the CPC. Prince Charm shared confidential information that was in his possession as a result of his involvement in the audit of a competitor of CLease, without receiving proper or specific authority . (140.1)	1 1
4	Prince Charm used the information to gain a personal advantage as he shared such information with the tax accountant to gain recognition from audit manager and the tax accountant (whom he wants to impress for personal reasons). (140.1)	1
5	Prince Charm did not consider whether the person to whom the information being disclosed or the type of communication was appropriate. Based on the circumstances it would seem it was inappropriate to disclose such information to the new tax accountant through an email . (140.8)	1
<i>Professional Competence and Due Care</i>		
6	Prince Charm is willing to offer advice on tax matters without having the necessary technical competence to do so and	1
7	Prince Charm also did not put appropriate safeguards in place by obtaining the input of the firm's tax expert . (130.7)	1
<i>Objectivity (Provision of Non-assurance Services)</i>		
8	A self-review threat to objectivity (independence) will be created as Prince Charm made the statement that Auditco could assist CLease with the tax implications to ensure a positive tax outcome for the company, which constitutes the provision of non-assurance services. <ul style="list-style-type: none"> • The threat is significant as CLease is listed (a public interest entity) and therefore Auditco are prevented from providing additional services to the entity. • There are no safeguards to reduce this threat to an acceptable level and the provision of tax advice should not be provided / suggested by Auditco. 	1 1 1
		Available
		11
		Maximum for part (d)(i)
		6

Part (d) Discuss, with reference to the SAICA Code of Professional Conduct – (ii) the ethical implications arising from the partner’s attendance of the golf event		
1	The partner’s attendance of the golf excursion is the acceptance of gifts and hospitality from a client in terms of the CPC definition. (260.1/290.225)	1
2	The attendance of the golf excursion created self-interest, familiarity & intimidation threats to objectivity (independence).	1
3	To consider the significance the <u>nature, value and intent</u> of the offer and whether it is in the <u>normal course</u> of business should be considered: <ul style="list-style-type: none"> • The value is high due to the CEO covering all the expenses of the 4-day golf excursion at a 5-star golf resort, which the partner previously acknowledged was extravagant. • The nature of the hospitality cannot be considered to be in the normal course of business and it may seem he, as audit partner, has been singled out • Although the information is not clear on the matter, there is always the risk that the intent is to influence/intimidate later. 	1 1 1
4	Based on above the threat is significant and due to the audit partner having already attended the golf event, the ethical implication would have been that no safeguards would be able to reduce the threats to an acceptable level and should not have been accepted. The matter should further be investigated and appropriate steps put in place.	1
5	He will not be seen as independent in mind or appearance and the hospitality could influence the engagement partner’s professional judgement . (290.6).	1
		Available
		7
		<i>Communication skills - presentation and layout</i>
		1
		Maximum for part (d)(ii)
		5