

**INSTITUTE OF FINANCE MANAGEMENT
FACULTY OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE
AUDITING AND ASSURANCE**

INTERNAL CONTROLS AND COMPONENTS REVIEW QUESTIONS.

Question One:

Amarine Pumps is a newly set-up small company which manufactures pumps. The company has software which records all inventory, purchases, sales and accounting transactions. Sales orders are received through mail, fax or telephone. The sales orders received are not monitored through the computer software. The software can be used by authorised persons only. The dates of transactions are only recorded in the format (MM/DD/YY) set by the software. The software has a provision through which transactions cannot be cancelled. Transactions can be cancelled only by recording journal entries.

Required:

With the help of examples, explain the types of control procedures which the company must adopt so as to ensure good internal controls.

Question Two:

Mwanga Beauty Collections is a garment manufacturing company situated in Tanzania.

The company has procured new ERP software. The board has not reviewed the risks associated with the utilisation of the new software. The company has an internal audit department which is headed by the Chief Internal Auditor (CIA). The CIA decides the charter based on his assessment of the risks faced by the company.

There is no specific frequency for the preparation of internal audit reports i.e. sometimes reports are prepared quarterly and sometimes half yearly. During 2022, the company's quarterly results when compared with the audited financial statements showed a fall of 20% in the net profits.

The following are the policies and practices of the company with respect to the evaluation of the effectiveness of internal controls:

1. The board satisfies itself that the company has a system of internal controls, which ensures effective monitoring on a continuous basis.
2. In addition, the board is required to carry out an annual assessment of the internal controls.

During the board's annual assessment, it considers the following factors:

(a) The scope and quality of management's method of monitoring risks, the system of internal control and the work of its internal audit function (if available) and other providers of assurance

(b) The frequency of occurrence of significant failures or weaknesses that have been identified at any time during the review period and their impact on the financial statements of the entity

3. The controls which are to be reviewed include compliance controls.

Required:

Evaluate the methods adopted by the board relating to the effectiveness of the internal control systems of the company.

Question Three:

Lusekelo Eco Services manufactures and markets air conditioners. The company has a network of dealers which sell its products to customers. The company offers credit limits to its dealers. The following is the credit policy for the dealers:

First Year Of Operation	NIL credit
After the first year	
For A class dealer	40% of all sales which are unpaid
For B class dealer	25% of all sales which are unpaid
For C class dealer	15% of all sales which are unpaid

Dealers are classified as A, B or C class, based on the turnover in the previous year of operation. The company's internal control system ensures that the credit limits never exceed the sanctioned limits.

However, the company faces the risk of non-recovery of receivables from about 40% of the dealers.

Required:

In order to improve the design of the internal controls relating to receivables explain the factors which need to be considered before setting credit limits for its customers.

Question Four:

Your firm has recently been appointed as auditor to **George Ltd**, a private company that runs a chain of small supermarkets selling fresh, frozen food, canned and dry food. **George Ltd** has very few controls over inventory because the company trusts local managers to make good decisions regarding the purchase, sale and control of inventory, all of which is done locally.

Required:

What reasons would you give to management as to why inventory should be safeguarded and what recommendations will you make to management to safeguard George Ltd's inventory?

Question Five:

You are the auditor of a small manufacturing company, **Mwambatata Ltd**, that pays its staff in cash and also by bank transfer and maintains its payroll on a small stand-alone computer.

The control objectives include policies and procedures designed by management to:

- ✓ Ensure regular and accurate processing and recording of payroll payments.
- ✓ Ensure the physical safeguarding of cash and money held in bank accounts by means of other controls.
- ✓ Prevent and detect fraud and error.
- ✓ Achieve accuracy and completeness of the accounting records.
- ✓ Ensure timely preparation of reliable financial information.

Required:

For the payroll department at Mwambatata, describe the internal control environment and internal control procedures that should be in place to achieve the internal control objectives.

Question Six:

Najma has been appointed as the auditor for **Aziz Motors Ltd** and she has to make her audit plan. She delegates it to the engagement team to assess the internal control system to decide the nature, timing and extent of audit procedures to be applied.

From the assessment of the internal control system, she finds that the internal controls are quite adequate and very effective. The audit team members therefore propose that certain areas need not be checked at all.

However, Najma instructs them to carry out less extensive audit procedures for each area.

Required:

Explain whether Najma's decision to implement audit procedures is right or wrong with reasons related to fraud and errors.

Question Seven:

You are newly appointed as the auditor of **Mwamba Ltd**, a limited liability manufacturing company. It manufactures capacitors used in various electrical appliances. The company has 20 dealers spread over a wide area. The accounting system of the company is computerised with effective internal controls. The industry of Mwamba is growing rapidly. The turnover of the company for the year ended 31 March 20X9 is TZS500 million and total assets TZS1,000 million.

Required:

Describe the information you will seek, and procedures you will perform in order to understand Mwamba Ltd and its environment including its internal control.

Question Eight:

In a small garage whose dealings are in cash, the foreman orally gives the details of work done to the receptionist. The receptionist then prepares an invoice and hands it over to the customer. The receptionist also collects cash from customers against the invoices when they collect their vehicles. At the end of the day, she checks the total amount of the invoices and the total cash received, records the total cash sales in cash receipt book and deposits the total cash collected for the day in the bank.

The receptionist then hands over all the documents such as invoices, deposit slips etc. along with cash receipt book, to the accountant, who then makes accounting entries.

Required:

How can the internal control system for the above-mentioned garage be made effective with few employees?

Question Nine:

Using a risk analysis approach, an auditor will assess the quality of a client's control environment and internal control system in order to determine the level of detailed testing required and also to target that testing to the high risk areas that have been identified.

Required:

(a) Describe different categories of control procedures.

(b) Explain limitations of controls in an organization.