



**CERTIFIED ACCOUNTING TECHNICIAN
STAGE 3 EXAMINATION**

S3.4 AUDIT AND ASSURANCE

DATE: TUESDAY, 30 NOVEMBER 2021

MARKING GUIDE AND MODEL ANSWERS

SECTION A

Marking guide

Question	Answer
1	C
2	C
3	D
4	C
5	C
6	D
7	B
8	D
9	D
10	C

Section A-Marks allocation	Marks
2 marks for each correct answer	2
Total marks for this section	20

Model answers

1. The correct answer is C

As per ISA 530 “Audit sampling” Haphazard selection is a sampling technique in which the auditor selects the sample without following a structured technique. Although no structured technique is used, the auditor would nonetheless avoid any conscious bias or predictability (for example, avoiding difficult to locate items, or always choosing or avoiding the first or last entries on a page) and thus attempt to ensure that all items in the population have a chance of selection. Haphazard selection is not appropriate when using statistical sampling.

2. The correct answer is C

The auditor has a right to require from the company's officers such information and explanations as the auditor thinks necessary for the performance of his duties as auditor; receive a copy of any written resolution proposed and receive all notices of and communications relating to such meetings which any member of the company is entitled to receive. He does not however, have a right to coordinate general meeting as stipulated in (ii) has a right of access at **all times** to the books, accounts and vouchers of the company contrary to (iv) that suggests limited times access.

3. The correct answer is D

All the mentioned ISAs are not specifically designed to guide on testing of related parties' transactions. The correct answer is D since ISA 550: Related parties would assist Paul with guidance to audit related parties' transactions and it was not included in the option answers

4. The correct answer is C

In a bid to ensure the accuracy, Mbabazi Enterprise Ltd payroll should be presented to the Chief Accountant to recompute the overall monthly wages before the cheque is approved and signed. To ensure that internal controls and segregation of duties is enhance, different individuals other than the two wages clerks should be made responsible for maintaining the personnel records and for periodically (but on a surprise basis) checking them against the details on the payroll. Also, the payroll master file should be reconciled to the general ledger.

Option (ii) is not correct because the payroll budget does not assist in determining the payroll costs. Option (iv) is not correct because two wage clerks are still responsible for the preparation and maintenance of the payroll. Therefore, this can still lead to collusion.

5. The correct answer is C

(a), (b) and (d) constitute the advantages of using flowcharts in evaluating AM Ltd's internal controls. (c) is one of the disadvantages of using flowcharts whereby, they are only suitable for describing standards systems. Procedures for dealing with unusual transactions will normally have to be recorded using narrative notes.

6. The correct answer id D

All the items mentioned in (a), (b), and (c) are composed of unusual items you can expect in the sales ledger. However, the correct answer is (d) as an unpaid invoice to be paid subsequently is a sale on credit, which is a usual transaction in the sales ledger.

7. The correct answer is B

All options under (i), (ii), (iii), and (iv) are correct represent challenges or difficulties associated with using Computer Assisted Audit Techniques (CAATs) to test Inema ltd's computer system processes. Option (v) is not correct because using audit software is most likely to be cost-effective in the long-term if the client does not change its systems.

8. The correct answer is D

All the stated reasons or provisions for voluntary disclosure of the information to the tax authorities regarding AJAX Associate Ltd are correct and provided by the International Ethics Standards Board for Accountants (IESBA).

9. The correct answer is D

Performance materiality may be set for particular classes of transactions, account balances or disclosures.

Exploration and development costs are material due to the industry in which the company operates, and therefore merits a lower performance materiality level. ISA 320 (para. 11) requires performance materiality to be set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. All uncorrected misstatements should be cumulated and communicated to management unless they are clearly trivial.

(i) and (iv) Directors' remuneration is not a good reference to set the performance materiality as it is not expected to be material to the nature of the business. The Performance materiality is not primarily set in order to determine whether misstatements identified during the audit should be accumulated and communicated to management.

10. The correct answer is C

Tests of controls relating to the accuracy assertion include (i) observing the invoicing clerk to ensure that prices are checked to the official price list and (iv) reviewing a sample of sales invoices to verify evidence that the calculations were checked before they were sent to customers. Other options are not correct because (ii) reviewing a sample of invoices to ensure their numerical sequence, (iii) reviewing a sample of goods out notes to ensure they have been matched to sales invoices and (v) reviewing a sample of sales reconciliations performed between sales invoices and daily sales reports are tests of completeness assertion.

SECTION B

QUESTION 11

Marking guide

	Marks
a. Explain the meaning of sufficiency of the audit evidence	2
Explain the meaning of appropriateness of the audit evidence	2
b. Explain six audit procedures used by auditors to obtain audit evidences	3
Give examples what type of items in the financial statements that could be audited by each procedure.	3
Total marks	10

Model answers

a. The meaning of sufficiency and appropriateness of audit evidence

i) **Sufficiency** of the audit evidence is the measure of the quantity of audit evidence. The quantity of audit evidence will be affected by the level of risk of material misstatement in the area being audited and the quality of such evidence obtained.

ii) **Appropriateness of audit evidence** is the measure of the quality of audit evidence; that is its relevance and its reliability in providing support for the conclusion on which the auditor's opinion is based.

b. Audit procedures used by auditors to obtain audit evidence and examples what type of items in the financial statements that could be audited by each procedure are summarized below:

Audit procedure	Explanation and examples
Inspection of documentation or records	Confirmation to documentation of items recorded in the accounting records demonstrates that a transaction occurred, or an asset or liability exists. (For example, inspecting a supplier invoice which has been posted onto the payables ledger confirms that the company owes the supplier for the goods or services shown on the invoice.)
Observation	Involves watching a procedure being performed (eg post opening, or inventory being counted). Observation is particularly useful in gaining an initial understanding of how the client's internal controls work (eg a walkthrough).
Inquiry	Seeking information from the client staff or external sources about operation of controls or how certain items have been treated in the accounting records (e.g., to understand what internal controls have

	been implemented with regards to the authorization of expenses, or to determine how provisions have been calculated).
External confirmation	<p>Seeking confirmation from another source of details in client's accounting records (e.g., confirmation from bank via bank audit letter of existence and rights and obligations of bank balances, confirmation from trade receivables in respect of the existence of receivables balances)</p> <p>External confirmations obtained directly by the audit team constitute more reliable audit evidence than confirmations obtained from the client.</p>
Recalculation	<p>Confirming the arithmetic accuracy of a client's records eg adding up a ledger account. If a formula is involved, the auditors should also consider the reasonableness of the formula. Recalculation can sometimes be performed using IT (For example, depreciation, interests calculation)</p>
Reperformance	<p>This is the auditor's independence execution of procedures of controls that were originally performed as part of the entity's internal control, either manually or through the use of computers.</p> <p>As information generated independently by the audit team itself, reperformance constitutes a strong form of audit evidence (For example, reperforming bank reconciliation to ensure accuracy of Bank balances)</p>
Analytical procedures	<p>These consist of evaluation of financial information (and fluctuations in financial information) made by studying plausible relationships between both financial and non- financial data.</p> <p>This helps to identify unexpected variances which require the auditor's attention, particularly from large volumes of data. Examples of analytical procedures include comparing the current period gross margin with prior years, comparing the rate of interest on related party loans with the industry average, or reviewing the employment costs of the production department against the number of staff in production department.</p>

QUESTION 12

Marking guide

- a) Identify and explain three deficiencies
 - b) Recommend controls to address each of those deficiencies
 - c) Describe test of controls the external auditor would perform
- Professional mark

Marks

3

3

3

1

Total marks

10

Model answers

The deficiencies, recommendations, and test of controls for the CME Ltd inventory count is summarized below:

a) Deficiencies	b) Recommendation	c) Test of controls
<p>The count will be undertaken by teams of warehouse staff.</p> <p>There should be a segregation of roles between those who have day to day responsibility for inventory and those who are checking it. If the same team are responsible for maintaining and checking inventory, then errors and frauds could be hidden</p>	<p>The counting teams should be independent of the warehouse; hence members of alternative departments should undertake the counting rather than the warehouse staff</p>	<p>Attend the year- end count and enquire of the counting teams which department they normally work in.</p> <p>Inspect the updated inventory count instructions to verify that they have been communicated to members of staff outside the warehouse department.</p>
<p>There are 15 teams of counters, each team having 2 members of staff. However, there is no clear division of responsibilities within the team. Therefore, both members of staff could count together rather than checking each other's count; and errors in their count may not be identified</p>	<p>Each team should be informed that both members are required to count their assigned inventory separately. Therefore, one member counts and the second member also undertakes a count and then records the inventory on the count sheets correctly.</p>	<p>Observe the counting teams to assess if they are counting together or if one counts and the other then double checks the quantities counted.</p> <p>Review the records of the sample checks undertaken by the supervisor of the inventory count.</p>

a) Deficiencies	b) Recommendation	c) Test of controls
	In addition, the financial controller supervising the count should undertake some sample checks of inventory counted by each team.	
<p>Inventory owned by third parties is also being counted by the teams, with adjustments being made by the finance team to split these goods out later. There does not appear to be a method for counters to identify which items are third-party inventory.</p> <p>There is a risk that these goods may not be correctly removed from the inventory count sheets, resulting inventory being overstated.</p>	All inventories belonging to the third parties should be moved to one location. This area should be clearly marked and excluded from the counting process	Enquire of the count supervisor where the third-party inventory is to be stored, confirm through inspection of the counting sheets that these units are not included on any pre-printed forms
High value inventory which is normally stored in a secure location will be accessible by all team members as they will be given the access code. This can significantly increase the risk of theft as any member of the counting team could subsequently access these goods.	<p>The high value inventory should be kept in the locked area of the warehouse. Senior members of the team should be allocated to count these goods, and they should be given the access code to enter the area.</p> <p>Upon completion of the count the access code should be changed.</p>	<p>Attempt to access the area where the high value inventory is stored; this should not be possible without the access code.</p> <p>At the year-end visit attempt to access with the code which was supplied during the inventory count.</p>
Each unit of the warehouse is counted once only. If inventory is only checked once, then counting errors may arise resulting in under- or overstated inventory	<p>Once all inventories have been counted once, each area should be recounted by a different team.</p> <p>Any differences on the first count should be promptly notified to the count</p>	Physically confirm that the completed Units of the warehouse have been flagged to indicate that the goods have been counted

a) Deficiencies	b) Recommendation	c) Test of controls
	<p>supervisor and a third count undertaken if necessary.</p> <p>If a full second count would be too time consuming for the company, then sample checks on the inventory counted should be undertaken by a different counting team</p>	<p>At the end of the count, review any units containing quartz's goods which have not been flagged</p>
<p>The inventory sheets are sequentially numbered and at the end of the count they are given to the count supervisor who confirms with each team that they have returned all sheets</p> <p>However, no sequence check of the sheets is performed. If sheets are missing, then inventory records could be understated</p>	<p>After the counting has finished, each team should return all of their sequentially numbered sheets and the supervisor should check the sequence of all sheets at the end of the count.</p>	<p>Review the sequence of the inventory sheets for any gaps in the sequence and obtain an explanation from the count supervisor</p>

SECTION C

QUESTION 13

Marking guide	Marks
a) Explain the auditors' responsibilities	2
b) i) Describe at least two audit procedures to carry out	6
ii) Explain whether the financial statements will need to be adjusted and give reasons	6
iii) Discuss the impact on the auditor's report from each of the subsequent events	6
Total marks	20

Model answers

a) As an auditor for GB Construction Ltd, you should perform audit procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of their report that may require adjustment or disclosure in the financial statements have been identified (ISA 560: para. 6). These procedures should take place as near as possible to the date of the auditor's report. They would include, for example, reading minutes of meetings with shareholders and audit committee meetings, reviewing the entity's latest interim accounts, and reviewing procedures that management have for identifying subsequent events. The auditor shall request that management and those charged with governance provide a written representation that all subsequent events requiring adjustment or disclosure have been adjusted or disclosed.

The auditor has no obligation to undertake audit procedures or make enquiries regarding the financial statements after the date of the auditor's report. Between this date and the date of issue of the financial statements, it is the management's responsibility to inform the auditors of any facts that might affect the financial statements. If such facts do arise which the auditor becomes aware of, they shall consider whether the financial statements need amending, discuss the matter with management and take appropriate action. If the financial statements are amended, a new auditor's report must be issued. If management refuses to make any amendments required, the auditor shall modify the audit opinion.

b) i, ii and iii

1. Audit procedures for a major customer who went into liquidation

- Assess the likelihood of recovery of this amount by discussion with the directors of GB Construction Ltd.
- Confirm the amount outstanding as at the year-end by inspection of the receivables' ledger and correspondence with the customer.
- Review any correspondence between the company and the customer to assess the likelihood of recovery of any amounts.
- Obtain a written representation point regarding the amount outstanding from the customer of GB Construction Ltd.
- Confirm the details of the bankruptcy to document received by GB Construction Ltd from the liquidator.

Impact on financial statements

The financial statements will need to be amended, as this is an example of an adjusting event after the reporting period. It provides additional information concerning the recoverability of the debt at the reporting date.

Revenue, profit, and net assets will all be overstated by FRW 750 million if the financial statements are not adjusted. The amount represents 10.7% of profit before tax and 1.4% of revenue; therefore, this amount is material to the financial statements. An adjustment is required in the financial statements to reduce the receivables balance and revenue.

Effect on audit opinion

The effect of the matter on the financial statements is clearly material. If the adjustments required are made, then there would be no effect on the auditor's report.

If the directors refused to make the adjustment required, the audit opinion would be modified on the basis that the accounts are not free from material misstatement and a qualified 'except for' opinion would be issued, as the matter is material but not pervasive.

2. Claim of unfair dismissal

Audit procedures

- Discuss the case for unfair dismissal with the directors of GB Construction Ltd to find out background of case, date when claim was lodged and assessment of success.
- Review lawyer's correspondence regarding this case, as it may have an impact for next year's audit.
- Review any press reports in the local or national papers about this claim against the company.

- Review minutes of board meetings regarding this case and any other claim cases against the company.
- Obtain written representations on this matter from the directors of GB Construction Ltd.

Impact on financial statements

A provision for this claim is not required since the requirements for recognizing a provision under IAS 37 Provisions, Contingent Liabilities and Contingent Assets are not met. Under IAS 37 (para.14), a provision should be recognized when there is a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle it and a reliable estimate can be made.

In this case, it appears unlikely that Mr Kalisa will be successful in his claim and so no provision should be recognized in the financial statements for the year ended 31 December 2020.

Disclosure of a contingent liability is also unlikely to be required since the possibility of any transfer in settlement appears to be remote.

Effect on auditor's report

There would be no effect on the auditor's report as a result of this matter, as no amendment would be required to the financial statements. An unmodified report on the financial statements could therefore be issued.

3. Fire

Audit procedures

- Discuss with management of GB Construction Ltd to clarify facts of the situation.
- Read minutes of board meetings and any reports submitted by insurers.
- Review insurance documents to confirm that damage caused by the fire is covered.

Impact on financial statements

The fire at the storage depot is a non-adjusting event after the reporting period – it does not relate to conditions which existed at the year end. It is unlikely that the fire is significant enough to impact on the going concern of the company. Disclosure of the event surrounding the fire should be made, together with an estimate of the financial effect.

Effects on auditor's report

Provided that adequate disclosure has been made of the event and its financial impact, there would be no need to modify the audit opinion as a result of this incident. An emphasis of matter paragraph drawing attention to this issue is unlikely to be required, unless it is viewed as being fundamental to the users' understanding.

QUESTION 14

Marking guide	Marks
a) Identify what to consider to selecting accounts receivables for external confirmation	3
b) Auditors' response on third parties for confirmation refusal	3
c) Analyze the confirmation results	8
d) Four reasons the assurance provided by confirmation will be limited	4
e) Two necessary substantive procedures	2
Total marks	20

Model answers

a) For an Albina to select receivables confirmation samples for Bigger Suppliers Limited, she should consider the following:

- It must be based upon a complete list of all accounts receivables.
- The sample should be selected after the stratification or categorization of accounts receivables to ensure sufficient proportion of the total value of receivables is tested.
- Special attention should be received to the following accounts:
 - Old unpaid accounts,
 - Accounts written-off during the period under audit,
 - Accounts with credit balances,
 - Accounts settled by round sum payments,
 - Dormant accounts,
 - Accounts with nil balances,
 - Accounts with large balances,
 - Accounts from top customers,
 - Accounts to which credit notes/journals have been posted close to the year end,
 - Accounts containing unusual transactions

b) Albina should note that it is the responsibility of the client (Bigger Suppliers Limited) to authorize third parties to provide the information requested by the auditor. ISA 505 (para.8) outlines what the auditors' response should be when management refuses permission for the auditors to contact third parties for evidence.

If management asks the auditor not to seek the confirmation:

- The auditor shall enquire about management's reasons for the refusal and seek audit evidence regarding the validity and reasonableness of the reasons.
- They shall also evaluate the implications of the refusal on the assessment of the risk of material misstatement and on the nature, timing and extent of other audit procedures.
- The auditor shall perform alternative audit procedures to obtain relevant and reliable audit evidence.

If the auditor concludes that the refusal is unreasonable, or the auditor cannot obtain relevant and reliable audit evidence elsewhere, the auditor shall communicate with those charged with governance in accordance with ISA 260 and consider the implications for the auditor's report (ISA 505: para. 9).

c) The audits work required on the various feedback on Albina's receivable's confirmations is expected to be as follows:

i. Excellence Ltd: Balance agreed by customer:

Where the balance has been agreed by the customer all that is required would be to ensure that the debt does not appear to be irrecoverable. This would be achieved by reviewing cash received after date or considering the adequacy of any provision made for a long outstanding receivable.

ii) Milinda Enterprise Ltd and Brian & Sons Enterprise: Balances not agreed by customer

All balance disagreements must be followed-up and their effect on total receivables evaluated. Differences arising that merely represent invoices or cash in transit (which are normal timing differences) generally do not require adjustment, but disputed amounts, and errors by the client, may indicate that further substantive work is necessary to determine whether material adjustments are required.

iii) Kalima Distributors: Customer does not reply to confirmation

When the positive request method is used the auditors must follow up by all practicable means those customers who fail to respond. Second request should be sent out in the event of no reply being received within two or three weeks and it necessary this may be followed by telephoning the customer with the client's permission.

If no reply has been received a list of the outstanding items will normally be passed to a responsible company official, preferably independent of the department, who will arrange for them to be investigated.

Other auditing tests that can establish that there existed a valid receivable from a genuine customer at the date of the verification are as follow:

- Verify receipt of cash after-date,
- Verify valid purchase orders, if any.
- Examine the account to see if the balance represents specific outstanding invoices.
- Obtain explanations for remaining unpaid invoices after subsequent ones have been paid.
- Review whether the balance on the account is growing, and if so, why.
- Test the company's control over the issue of credit notes and write-off of irrecoverable debts.

iv) Amani Distributors Ltd: Customer is unable to confirm because of the form/format of records maintained

Certain companies, often computerized, operate systems which make it impossible for them to confirm the balance on their account. Typically, in these circumstances their purchase ledger is merely a list of unpaid invoices. However, given sufficient information the customer will be able to confirm that any given invoice is outstanding. Hence the auditor can circularize such company successfully, but they will need to break down the total on the account into its constituent outstanding invoices.

d) The assurance provided by the confirmation will be limited for the following reasons:

- i. The confirmation is generally carried out on a sample basis, and hence there is significant risk that the confirmation will show an incorrect result.
- ii. Some customers confirm balances automatically without agreeing the confirmation letter to their own records.
- iii. Some customers report that they cannot confirm the balance from their accounting records. However, this sort of reply does at least provide evidence that the balance exists.
- iv. Some customers will disagree with the balance, and the client balance is correct. Usually this is due to cash or purchases in transit, or customer failure to update its purchase ledger.
- v. An accounts receivable confirmation may confirm customers agrees that the money is owed, but it does not confirm that they will pay the money. Hence further tests will be required on recoverability.

e) Substantive procedures to verify completeness of accounts receivables.

- Agree the balance from the individual sales ledger accounts to the aged receivables' listing and vice versa.
- Match the total of the aged receivables' listing to the sales ledger control account.
- Review detailed statement of financial position to ensure all likely prepayments have been included.

Substantive procedures to verify accuracy of accounts receivables.

- Review the adequacy of the allowance for uncollectable accounts through discussion with management.
 - Examine credit notes issued after year end for allowances that should be made against current period balances.
 - For a sample of old debts on the aged trial balance, obtain further information regarding their recoverability by discussions with management and review of customer correspondence.
 - Review after-date cash receipts by inspecting bank statements and cash receipts documentation.
 - For a sample of prepayments from the prepayments' listing, recalculate the amount prepaid to ensure that it has been accurately calculated.
-

QUESTION 15

Marking guide	Marks
a) Describe two methods for audit documentation	4
Identify advantages for each method	2
Identify disadvantages for each method	2
b) Identify and explain six control deficiencies	6
Provide a recommendation to address each of these deficiencies	6
Total marks	20

Model answers

a) Documenting the audit work for the sales system at Kabuga Cement Factory Limited

There are several methods which can be used to document the audit works for the sales systems at Kabuga Cement Factory Limited.

i) Narrative notes

Narrative notes consist of a written description of sales systems at Kabuga Cement Factory Limited. They would detail what occurs in the system at each stage and would include any controls which operate at each stage.

Advantages of this method include:

- They are simple to record; after discussion with staff members, these discussions are easily written up as notes
- They can facilitate understanding by all members of the audit team, especially more junior members who might find alternative methods too complex

Disadvantages of this method include

- Narrative notes may prove to be too cumbersome, especially if the system is complex or heavily automated.
- This method can make it more difficult to identify missing internal controls as the notes record the detail but do not identify control exceptions clearly.

ii) Questionnaires

Internal control questionnaires (ICQs) or internal control evaluation questionnaires (ICEQs) contain a list of questions; ICQs are used to assess whether controls exist whereas ICEQs assess the effectiveness of the controls in place.

Advantages of this method include:

- Questionnaires are quick to prepare, which means they are a timely method for recording the system.
- They ensure that all controls present within the system are considered and recorded, hence missing controls or deficiencies are clearly highlighted by the audit team.

Disadvantages of this method include:

- It can be easy for the staff members to overstate the level of the controls present as they are asked a series of questions relating to potential controls
- A standard list of questions may miss out unusual or more bespoke controls used by the company

iii) Flowcharts

Flowcharts are a graphic illustration of the internal control system for the sales system. Lines usually demonstrate the sequence of events and standard symbols are used to signify controls or documents

Advantages of this method include:

- It is easy to view the system in its entirety as it is all presented together in one diagram
- Due to the use of standard symbols for controls, it can be effective in identifying missing controls

Disadvantages of this method include:

- They can sometimes be difficult to amend, as any amendments may require the whole flowchart to be redrawn
- There is still the need for narrative notes to accompany the flowchart and hence it can be a time-consuming method

b) Deficiencies and controls over the Kabuga cement factory Limited sales system

The answer has been provided in two columns to match control deficiency with its related control recommendation

Control deficiency	Control recommendation
<p>New customers' creditworthiness is assessed by a sales person who sets the credit limit, which is authorized by the sales director. The sales staff have sales targets, and hence may suggest that new customers are creditworthy simply to meet their targets. This could result in sales being made to poor credit risks.</p>	<p>New customers should complete a credit application which should be checked through a credit agency with a credit limit set. Once authorized by the sales director, the limit should be entered into the system by a credit controller.</p>
<p>Sales staff have discretion to grant sales discounts to customers of up to 15%, this could result in a loss of revenue as they may award unrealistic discounts simply to meet sales target. The discounts granted by sales staff are not being reviewed and could result in unauthorized discounts allowed.</p>	<p>All discounts to be granted to costumers should be authorized in advance by a responsible official, such as the sales director, if not practical, then the supervisor of the sales staff should undertake this role.</p>
<p>Sales staff are able to make changes to the customer master data file, in order to record discounts allowed and these changes are not reviewed. There is a risk that these amendments could be made incorrectly resulting in a loss of sales revenue or overcharging of customers. In addition, the sales staff are not senior enough to be given access to changing master file data as this could increase the risk of fraud.</p>	<p>Sales staff should not be able to access the master data file to make amendments. Any such amendments to master file data should be restricted so that only supervisors and above can make changes.</p> <p>Any exception report of changes made should be generated and reviewed by a responsible official.</p>
<p>Inventory availability does not appear to be checked by the salesperson at the time the order is placed. In addition, Kabuga cement factory Limited markets itself on being able to dispatch all orders within three working days. There is a risk that where goods are not available, the customer would not be made aware of this prior to placing their order, leading to unfulfilled orders and customer dissatisfaction, which would impact the company's reputation.</p>	<p>Prior to the sales person finalizing the order, the inventory system should be checked in order for an accurate assessment of the availability of goods to be notified to customers.</p>

Control deficiency	Control recommendation
<p>Customer orders are recorded on a two-part pre-printed form; one copy is left with the customer and one with the salesperson</p> <p>The sales department of Kabuga cement factory Limited does not hold these orders centrally and hence would not be able to monitor if orders are being fulfilled on a timely basis.</p> <p>This could result in a loss of revenue and customer goodwill.</p>	<p>The orders form should be amended to be at least four parts, the third part of the order should be set to the warehouse department and the fourth part sent to the finance department.</p> <p>The copy that the salesperson has should be stored centrally in the sales department. Upon dispatch, the goods dispatch note should be matched to the order, a regular review of unmatched orders should be undertaken by the sales department to identify any unfulfilled orders.</p>
<p>Customer orders are given a number based on the salesperson's own identification (ID) number. These numbers are not sequential. Without sequential numbers, it is difficult for Kabuga cement factory Limited to identify missing orders and to monitor if all orders are being dispatched in a timely manner, leading to a loss of customer goodwill.</p>	<p>Sales orders should be sequentially numbered. On a regular basis, a sequence check of orders should be undertaken to identify any missing orders.</p>
<p>The salesperson emails the warehouse dispatch team with the customer ID and the sales order details, rather than a copy of the sales order itself, and a pick list is generated from this.</p> <p>There is a risk that incorrect or insufficient details may be recorded by the salesperson and this could result in incorrect orders being dispatched, orders being dispatched late or orders failing to be dispatched at all, resulting in a loss of customer goodwill and revenues.</p>	<p>The third part of the sales order as mentioned previously should be forwarded directly to the warehouse department.</p> <p>The pick list should be generated from the original order form and the warehouse team should check correct quantities and product descriptions are being dispatched, as well as checking the quality of goods being dispatched to ensure if they are not damaged.</p>
<p>Sequentially numbered goods dispatched notes (GDNs) are completed and filed by the warehouse department. If the finance department does not receive a copy of these GDNs, they will not know when to raise the related sales invoice. This could result in goods being dispatched but not being invoiced, leading to a loss of revenues.</p>	<p>Upon dispatch a goods, a four-part GDN should be completed, with the copies to the customer, warehouse department, sales department (to confirm dispatch of goods) and finance department. Upon receipt of the GDN, once matched to the fourth part of the sales order form, a clerk should raise the sales invoices in a timely manner, confirming all details to the GDN and the order.</p>

Control deficiency	Control recommendation
<p>The salesperson is given responsibility to chase customers directly for payment once an invoice is outstanding for 90 days. This is considerably in excess of the company's credit terms of 30 days which will lead to poor cash flow.</p> <p>Further, as the salespeople have sales targets, they are more likely to focus on generating sales orders rather than chasing payments. This could result in an increase in bad debts and reduced profit and cash flows.</p>	<p>A credit controller should be appointed and it should be their role, rather than of the salesperson, to chase any outstanding sales invoices which are more than 30 days old.</p>

END OF MARKING GUIDE AND MODEL ANSWERS