



# The Southern African Institute of Government Auditors

## Qualifying Examination for Registered Government Auditors

### Paper 2: Auditing

**ROPLO2 AND OTHER CANDIDATES**

**September 2007**

#### **INSTRUCTIONS TO CANDIDATES**

- 1 Maximum marks: **160**.
- 2 Total time available **four hours**.
- 3 The marks allocated are an indication of the expected length and required depth of the answer.
- 4 Ensure proper planning and avoid exceeding the time available for each question as indicated by the number of marks allocated to the question.
- 5 Present your arguments clearly, well structured and use clear precise language and where appropriate, professional terms.
- 6 No books or notes are allowed in the examination room.
- 7 All working papers must be handed in together with all paper provided for the examination (including unused answer sheets).
- 8 Answers written in pencil will not be marked.
- 9 You are reminded that this examination will be held under the rules as set out in the document "RGA-QE Examination Matters & Examination Policy 2007".
- 10 You are required to observe all Examination Instructions handed to you on a separate sheet of paper.

## QUESTION 1

(40 marks)

### REQUIRED:

For each sub-section of this question select only **ONE** alternative that you consider to be appropriate and then write down as your answer the number of the sub-section and the letter that precedes the selected alternative. Answer the sub-sections of this question in numerical sequence, for example:

- 1 a
- 2 b

The questions have to be read in the context of the *Public Finance Management Act* (PFMA), *Treasury Regulations*, the *Municipal Finance Management Act* (MFMA), the *Public Audit Act* and the INTOSAI Code of Ethics.

#### Question 1.1

The INTOSAI Code of Ethics can best be described as:

- a A comprehensive statement of values and principles which guide the auditor.
- b A comprehensive guideline on how to act in specific audit related circumstances.
- c A combination of rules and guidelines to determine auditor behaviour.
- d The ethical rules of the auditor in practice.

#### Question 1.2

Which concept constitutes the *core value* of a Code of Ethics (for auditors):

- a Independence.
- b Confidentiality.
- c Integrity.
- d Objectivity.
- e Competence.
- f None of the above.

#### Question 1.3

The auditor promotes the public's trust, confidence and credibility in the audit profession, by adopting and applying a number of concepts (as embodied in key-words). Which of the following is not applicable:

- a Integrity.
- b Independence.
- c Competence.
- d Objectivity.
- e Confidentiality.
- f All the above are applicable.

Question 1.4

Choose the concept that does not relate to the INTOSAI Code of Ethics' *standard of competence*:

- a Apply high standards.
- b Possess understanding of principles and standards.
- c Conduct work with objectivity and impartiality.
- d Participate in continuing professional development.
- e Conducting yourself in a professional manner.
- f All the above are applicable.

Question 1.5

In striving towards the concept of independence, the auditor is guided by certain principles. Which of the following is not an applicable principle:

- a Be independent in fact and appearance.
- b Conclusions in the audit report should be exclusively based on evidence.
- c Auditors should refrain from becoming involved in matters in which they have a vested interest.
- d Auditors must not undertake work they are unable to perform.
- e All the above are applicable.

Question 1.6

The ethical value of *integrity* is underlined in the INTOSAI Code of Ethics. Which word/(s) does/(do) not relate to this concept:

- a Honesty.
- b Candidness.
- c Right and just.
- d Objectivity.
- e Competence.

Question 1.7

Identify the incorrect statement:

- a The Auditor-General is independent and subject only to the *Constitution*, the *Public Audit Act* and the law in general.
- b The Auditor-General must perform the functions of office without fear, favour or prejudice.
- c The Auditor-General reports to the Presidency, through an oversight mechanism.
- d The Auditor-General is accountable to the National Assembly.

Question 1.8

The *Public Audit Act* provides for the Auditor-General to utilise the services of private sector auditors (referred to as authorised auditors) to assist the Auditor-General with the performance of audits. The *Public Audit Act* then provides that the code of conduct of these authorised auditors is issued by the:

- a Auditor-General.
- b Independent Regulatory Board for Auditors.
- c South African Institute of Chartered Accountants.
- d Public Accountants' and Auditors' Board.
- e International Federation of Accountants.

Question 1.9

Which of the following aspects is not introduced by the proposed amendments to the *Companies Act* (the Corporate Laws Amendment Bill – published April 2006):

- a Rotation of company auditors or audit partners in a five year cycle.
- b Public interest companies and limited interest companies.
- c Performance management for private sector companies.
- d The nomination of auditors by an audit committee.
- e The establishment of a Financial Reporting Standards Council.

Question 1.10

The Auditor-General is allowed, in terms of the *Public Audit Act*, to act as standard setter with regard to the standards that have to be applied during an audit conducted by the Auditor-General. In setting such standards the Auditor-General has to adhere to the following:

- A Consult the oversight mechanism as established in terms of section 10(3) of the *Public Audit Act*.
- B Have the standards approved by the oversight mechanism as established in terms of section 10(3) of the *Public Audit Act*.
- C Consult the Independent Regulatory Board for Auditors.
- D Have the standards approved by the Independent Regulatory Board for Auditors.
- E Take into account international best auditing practices.
- F Take into account local best auditing practices.
- G The capacity of the Auditor-General.
- H The capacity of the auditing profession.

Choose the applicable combination:

- a A, C, D, E, F, G, H.
- b A, E, F, G, H.
- c A, C, D, E, F, G, H.
- d B, D, E, F, G, H.
- e A, B, D, E, G, H.
- f B, D, E, F, G.
- g B, C, E, F, G.
- h A, C, D, E, F, H.
- i A, C, D, E, F, G, H.
- j B, E, G.
- k A, E, G.

Remember that the options you have to choose from are indicated by small letters (a, b, c, etc.).

The following information is applicable to the next 4 (four) questions (1.11 to 1.14) and refers to South Africa.

- A Financial Reporting Standards Council
- B Accounting Standards Board
- C Auditing and Assurance Standards Board
- D Auditor-General
- E Independent Regulatory Board for Auditors
- F South African Institute of Chartered Accountants
- G International Federation of Accountants
- H Generally Recognised Accounting Practices
- I Generally Accepted Accounting Practices
- J Private sector accounting standards
- K Public sector accounting standards
- L Private sector auditing standards
- M Public sector auditing standards

Choose the correct sentence:

Question 1.11

- a The A sets the J also referred to as I.
- b The B sets the J also referred to as I.
- c The F sets the J also referred to as I.
- d The G sets the J also referred to as I.
- e The A sets the J also referred to as H.
- f The B sets the J also referred to as H.
- g The F sets the J also referred to as H.
- h The G sets the J also referred to as H.

Question 1.12

- a The A sets the K also referred to as H.
- b The B sets the K also referred to as H.
- c The F sets the K also referred to as H.
- d The G sets the K also referred to as H.
- e The A sets the K also referred to as I.
- f The B sets the K also referred to as I.
- g The F sets the K also referred to as I.
- h The G sets the K also referred to as I.

Question 1.13

- a The C which operates under the E sets the K.
- b The C which operates under the F sets the K.
- c The C which operates under the A sets the K.
- d The C which operates under the E sets the L.
- e None of the above is correct.

Question 1.14

- a The D sets the M in consultation with the C.
- b The D sets the M in consultation with the E.
- c The D sets the M in consultation with the F.
- d The D sets the M in consultation with the G.
- e The D sets the M.

Questions 1.15

Which of the following statements is not applicable to authorised auditors:

- a The Auditor-General must determine the authorised auditors' minimum qualifications.
- b The Auditor-General must determine the authorised auditors' minimum experience.
- c The Auditor-General must determine the authorised auditors' minimum competence.
- d The Auditor-General must issue a code of ethics applicable to the authorised auditors.
- e Authorised auditors must work subject to any directives issued by the Independent Regulatory Board for Auditors.

Question 1.16

Which of the following is not an objective of the PFMA:

- a To emphasize the importance of good administration in government.
- b To modernise financial management in the public sector.
- c To eliminate waste and corruption in the public sector.
- d To ensure the timely provision of quality information about government.

Question 1.17

The purpose, authority and responsibility of the internal audit function of public sector entities must, in consultation with the audit committee, be formally defined in an internal audit charter that has to:

- a Meet specific requirements as published in Chapter Fifteen Four of the *Treasury Regulations*.
- b Be consistent with the Institute of Internal Auditors (IIA) definition of internal auditing.
- c Meet the requirements as published in the PFMA.
- d Meet the requirements as published in the King Report on Corporate Governance (King II).

Question 1.18

The *Treasury Regulations* which are published in terms of the PFMA, can be best described as containing:

- a Instructions.
- b Norms and standards.
- c Rules and instructions.
- d Detail explanations of the PFMA.
- e Administrative arrangements complimenting PFMA requirements.

Question 1.19

Which of the following financial statements do not have to be included in the consolidated financial statements that the National Treasury has to prepare:

- a National departments.
- b Provincial departments.
- c The South African Reserve Bank.
- d The Auditor-General.
- e Parliament.
- f Constitutional Institutions.
- g All of the above.

Question 1.20

Which provision in the PFMA affects the focus to be shifted away from figures to outcomes and outputs (services delivered, etc.):

- a The requirement that measurable objectives have to be provided by Accounting Officers as part of their budget.
- b The requirement that budgets have to be prepared in a specific format.
- c The requirement that estimates of capital expenditure have to be provided per vote and per main division within a vote.
- d Other prescribed information, including multi-year budget information.

Question 1.21

When discussing the difference between accountability and governance requirements, which statement is most *incorrect*:

- a Accountability requirements relate to norms standards.
- b Governance requirements can mostly be ticked off, whilst accountability requirement refer to a constant strive to improve or try to meet the requirement.
- c Accountability is easier to achieve than governance.
- d Disclosing something in the financial statements is a governance requirement.
- e In most cases meeting governance requirements does not provide true accountability.

Question 1.22

The PFMA emphasises the so-called three Es. There are also three unwanted Es in the PFMA. Which of the following is not an unwanted expenditure referred to in the PFMA:

- a Unauthorised expenditure.
- b Unappropriated expenditure.
- c Irregular expenditure.
- d Fruitless and wasteful expenditure.

Question 1.23

Which of the following is not a requirement of the PFMA regarding the national and provincial departments' procurement and provisioning system:

- a Fair.
- b Equitable.
- c Competitive.
- d Cost effective.
- e Cost efficient.
- f Transparent.

Information for question 1.24:

- A The Accounting Officer of a department has to prepare the department's financial statements within a certain period after year end.
- B The Auditor-General has to audit the financial statements within a certain period.
- C The Accounting Officer then has to prepare an annual report within a certain period after year end.

Question 1.24

Choose the correct time frames:

- a A = 2 months; B = 2 months; C = 5 months.
- b A = 2 months; B = 3 months; C = 5 months.
- c A = 3 months; B = 2 months; C = 5 months.
- d A = 2 months; B = 2 months; C = 1 month.
- e A = 1 months; B = 2 months; C = 2 months.

Question 1.25

If conducted willfully or negligently, which of the following does not constitute a financial misconduct in terms of the PFMA:

- a An official failing to exercise a duty assigned to him/her in terms of section 10 or 20 of the PFMA.
- b Making a irregular expenditure.
- c Permitting an irregular expenditure.
- d Sub-delegating responsibilities.

Question 1.26

What does the PFMA not require with regard to audit committees:

- a Has to consist of at least three persons.
- b One member must be from the public service.
- c Majority of members may not be in the employ of the department.
- d The Chairperson may not be in the employ of the department.
- e The audit committee must meet at least twice a year.

Question 1.27

The *Treasury Regulations* describe specific tasks of the internal audit function of a public entity. Which of the following is not a specific task, described in the *Treasury Regulations*:

- a The internal audit function should focus on recommendations regarding the enhancement of accountability.
- b The internal audit function should implement the principles of the King report on corporate governance (King II).
- c The internal audit function must evaluate and develop recommendations for the enhancement or improvement of processes.
- d The internal audit function must assist the accounting authority in achieving the objectives of the public entity.
- e The internal audit function should focus on recommendations regarding the preservation of corporate values.

Question 1.28

The *Treasury Regulations* are issued in terms of which chapter of the PFMA:

- a National Treasury and National Revenue Fund (Chapter 2)
- b Accounting Officer's responsibilities (Chapter 5)
- c Norms and standards (Chapter 9).
- d General treasury matters (Chapter 9).
- e None of the above.

The following information relates to the next three questions (1.29 to 1.31).

The Auditor-General expressed concerns in his 2004/2005 General Report on Audit Outcomes that certain areas of financial management in the public sector were still problematic, especially within national departments. In this regard, the Auditor-General has specifically identified specific areas that still appear to pose challenges.

Question 1.29

Identify which one was not identified as a "problem":

- a Internal Audit and Audit Committees.
- b Risk Management and Fraud Prevention.
- c Internal Controls.
- d Public Private Partnerships.
- e Asset Management.
- f Budgets.
- g Annual Reports and Financial Statements.
- h Supply Chain Management.
- i Performance Information.

Question 1.30

Identify the aspect that was not identified as a concern relating to the operations of internal audit functions and audit committees:

- a Internal audit functions and audit committees are ineffective.
- b Audit committees are not operating in terms of a written terms of reference.
- c Internal audit plans are not in place.
- d Skilled personnel cannot be attracted.
- e Internal audit functions do not adhere to the Institute of Internal Auditors standards.

Question 1.31

Identify the aspect that was not identified as a concern relating to supply chain management:

- a No approved supply chain management policies.
- b Supply chain management systems not implemented.
- c Non-compliance with supply chain management policy.
- d All of the above.

Question 1.32

Following certain problems experienced with the implementation of the PFMA and the *Treasury Regulations*, with regard to asset management in particular, National Treasury undertook a number of initiatives to assist departments in this regard. Which was not such an initiative undertaken by National Treasury:

- a Introduce an Asset Management Learner's Guide.
- b Conduct workshops and training interventions on the topic.
- c Lobby for the relaxation of certain requirements in the *Treasury Regulations* that cannot be met because of capacity constraints.
- d Conduct status assessments in departments by means of a questionnaire.
- e Establish an asset management support unit in all provincial treasuries.

Question 1.33

What is not a requirement in terms of the *Treasury Regulations*, in respect of strategic plans:

- a A strategic plan must cover a period of three years.
- b A strategic plan must include details of the Service Delivery Improvement Programme.
- c A strategic plan must include measurable objectives.
- d A strategic plan must include multi-year projections of income and projected receipts from the sale of assets.
- e A strategic plan must be subject to an audit review.

Question 1.34

Which is not a chapter/part in the *Treasury Regulations*:

- a Revenue and expenditure management.
- b Asset and liability management.
- c Frameworks.
- d Management arrangements.
- e Accounting and reporting requirements.
- f All of the above are chapters/parts in the *Treasury Regulations*.

Question 1.35

The *Treasury Regulations* provide that the audit committee must perform certain functions. What does the audit committee not have to do:

- a Review the effectiveness of the internal control systems.
- b Review the effectiveness of the internal audit function.
- c Review the manner in which the internal audit function and the external auditors have co-operated.
- d Review the risk areas of the institution's operations.
- e Review the institution's compliance with legal and regulatory provisions.

Question 1.36

During the past decade, a number of Acts were developed to modernise financial management in the local government sphere. Identify the correct date sequence in which the following Acts were published:

A: *Municipal Finance Management Act*

B: *Municipal Structures Act*

C: *Municipal Systems Act*

- a A, C, B
- b B, C, A
- c A, B, C
- d C, B, A
- e B, A, C

Question 1.37

The MFMA established a number of structures and introduced a number of unique concepts. Which of the following does not fall within the above mentioned category:

- a Municipal Financial Recovery Service.
- b Financial recovery plans.
- c Provincial interventions.
- d National interventions.
- e Financial assistance.

Question 1.38

Identify the incorrect statement:

- a The council of a municipality must approve an annual budget for the municipalities.
- b The budget of a municipality must be approved before the start of the financial year.
- c The mayor of a municipality must approve an annual budget for the municipality.
- d The budget of a municipality must be prepared before the start of the financial year.

Question 1.39

Supply chain management by a municipality is applicable to: (identify the incorrect option):

- a Selection of key management staff members.
- b Procurement of services.
- c Disposals of goods no longer needed.
- d Selection of contractors.
- e Procurement of goods.

Question 1.40

The annual report of a municipality need not include:

- a The annual financial statements of the municipality.
- b A report of the Auditor-General on those financial statements.
- c Recommendations of the municipality's audit committee.
- d A report by the major of the municipality.
- e An assessment of any arrears on municipal taxes and services charges.

Question 1.41

Which of the following criteria does not have to apply to a supply chain management policy of a municipal entity:

- a Fairness.
- b Transparency.
- c Comprehensiveness.
- d Cost-effectiveness.
- e Equitableness.

Question 1.42

The supply chain management policy of a municipality need not:

- a Promote ethics of officials involved in supply chain management.
- b Include financial models and options to fund procurement decisions.
- c Include measures for combating fraud en corruption.
- d Include procedures and mechanisms for opening and recording bids.
- e Dispute settling procedures.

Question 1.43

Which of the following role-players are least involved in assessing the annual reports of a municipality:

- a The Auditor-General.
- b The MEC for local government in the province.
- c The National Treasury.
- d The Municipal Council.

Question 1.44

The MFMA determines that the notes to the financial statements of a municipality must include a number of compulsory disclosures. Which is not one of them:

- a A list of all municipal entities under the control of the municipality as at the last day of the financial year.
- b A list of all municipal entities under the control of the municipality at any time during the financial year.
- c A summary of all investments of the municipality at year end.
- d A summary of all investments the municipality had during the year.
- e Particulars of non-compliance with the MFMA.

Information for the last question:

- A Prospective Registered Government Auditors (RGAs) have to pass a Qualifying Examination set by the Institute's Education & Training Committee and evaluated by the Institute's Examination Board.
- B The continuing professional development (CPD) requirements of RGAs are compulsory.
- C The minimum number of CPD hours that RGAs have to undergo in a four-year cycle exceeds the required number of hours by private sector auditors.
- D The Common Body of Knowledge and Skills (COBOKS) for RGAs contains specific public sector topics such as the PFMA, MFMA, *Treasury Regulations*.
- E SAIGA's COBOKS requires RGAs to be competent in both Generally Recognised Accounting Practices (GRAP) as well as Generally Accepted Accounting Practices (GAAP).
- F The practical experience requirement in order to become a RGA is four years.

Question 1.45

Chose the most correct option:

- a A, B, C and E are correct.
- b B, C, D, E and F are correct.
- c B, C, D, E and F are correct.
- d B, C, D and E are correct.
- e A, C, D, and F are correct.
- f A, B, and E are correct.
- g A, C, E and F are correct.
- h A, C and E are correct.
- i A, C and F are correct.
- j B, D, and F are correct.
- k All of the above are correct.

**Make sure you have answered all of the above questions.**  
**No negative marking will be applied to incorrect answers.**  
**A total of 40 questions will be used to calculate the final mark.**  
**This may differ from candidate to candidate.**

## QUESTION 2

(60 marks)

The Department of Public Works and Land Affairs of Angeria provides land and accommodation to national government departments and institutions, manages such land and accommodation and is the custodian of national immovable assets.

Part A to D of this question relates to the audit by the Auditor-General of the annual financial statements of the Department of Public Works and Land Affairs for the year ended 31 March 2007. Extracts from the 2006/7 annual report of the Department and from other relevant documentation are provided in each part of this question.

The financial statements have been prepared on the modified cash basis of accounting. The modified cash basis constitutes the cash basis of accounting supplemented with additional disclosure items. Under the cash basis of accounting transactions and other events are recognised when cash is received or paid or when the final authorisation for payment is effected on the system.

### PART A: CAPITAL ASSETS

(5 marks)

#### EXTRACTS FROM ACCOUNTING POLICIES

##### *Sale of capital assets*

The proceeds received on sale of capital assets are recognised as revenue in the statement of financial performance when the cash is received.

#### EXTRACT FROM THE NOTES TO THE ANNUAL FINANCIAL STATEMENTS

<b>Sale of capital assets</b>	<b><u>2006/7</u></b>	<b><u>2005/6</u></b>
Land	R56,389,377	R5,589,243

During the current year a huge project was undertaken to identify and accelerate the process of disposal of unused land which is no longer required for service delivery, thus the major increase in revenue attributed to the sale of capital assets in the current year.

#### REQUIRED:

Formulate the audit procedures you would perform to verify that the recorded revenue from sale of land is *complete* and that disposals of unused land occurred in accordance with the relevant sections of the *Treasury Regulations* issued in terms of the *Public Finance Management Act*. (5)

**PART B: FRUITLESS AND WASTEFUL EXPENDITURE****(8 marks)****EXTRACTS FROM ACCOUNTING POLICIES*****Fruitless and wasteful expenditure***

Fruitless and wasteful expenditure is expenditure which was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is recognised as an asset in the statement of financial position until such time as the expenditure is recovered from the responsible person or written off as irrecoverable in the statement of financial performance.

**EXTRACTS FROM THE NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

	<u>2006/7</u> R	<u>2005/6</u> R
<b>Reconciliation of fruitless and wasteful expenditure</b>		
Opening balance	45,588,744	40,308,003
Fruitless and wasteful expenditure – current year	12,589,555	4,189,7241
Fruitless and wasteful expenditure – recovered	4,751,967	-
Fruitless and wasteful expenditure condoned / written off	<u>(2,699,733)</u>	<u>1,091,020</u>
Closing balance - expenditure awaiting condonement	<u>50,726,599</u>	<u>45,588,744</u>

**REQUIRED:**

Formulate the substantive procedures you would perform to audit the *reconciliation* of fruitless and wasteful expenditure as disclosed in the notes to the annual financial statement of the Department of Public Works and Land Affairs for the year ended 31 March 2007. (8)

**PART C: CONTINGENT LIABILITIES AND COMMITMENTS****(20 marks)****EXTRACTS FROM THE NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

<b>Commitments for capital expenditure</b>	<b><u>2006/7</u></b>	<b><u>2005/6</u></b>
	<b>R</b>	<b>R</b>
Approved and contracted	600,272,555	350,222,456
Approved but not yet contracted	2,544,700,500	2,998,523,450
<b>Contingent liabilities</b>		
The following contingent liabilities exist as at 31 March 2007:		
		<b>R</b>
- Century Holdings: Claim for damages resulting from breach of contract		30,000,000
- AB Banda: Claim for damages resulting from injuries incurred on the job		670,000
- D Smith: Sued by trial prisoner for injuries incurred at Angeria Prison		500,000
Total		<u>31,117,000</u>

**EXTRACT FROM THE AUDIT WORKING PAPERS OF THE CURRENT AUDIT****Matter for audit manager's attention**

A recent news broadcast on television reported that opposition political parties are outraged that the Department of Public Works and Land Affairs has approved a contract with United States Security Solutions to erect security walls at the private residences of the prime minister and several other cabinet members to the value of R350 million. Subsequently I have obtained and inspected the contract which was signed and approved on 20 February 2007. This contract is, however, not included in the capital commitments as disclosed in the pro-forma annual financial statements. *S. De Wet 15/3/2007.*

**REQUIRED:**

- 1 Formulate the substantive audit procedures to be performed by the Auditor-General to identify any *further undisclosed* commitments and contingent liabilities. (17)
- 2 Briefly explain the likely effect of the non-disclosure of the capital commitment in respect of the security walls on the audit report to be issued by the Auditor-General. (3)

**PART D: ADVANCES TO STAFF**

**(27 marks)**

**EXTRACT FROM THE DEPARTMENT'S POLICIES AND PROCEDURES**

**STAFF ADVANCES**

Level 1 and 2 employees (lower skilled) are entitled to apply for an interest free advance once a year that does not exceed his/her monthly gross salary. These advances are recorded and recognised in the statement of financial position when the payments are made.

Advances are recovered from employees in equal amounts over a period of six months by means of deductions from the staff members' salaries. The repayments are recognised in the statement of financial position upon receipt of the funds.

**EXTRACT FROM ACCOUNTING POLICIES**

**RECEIVABLES**

Receivables included in the statement of financial position arise from case payments made that are recoverable from another party.

**EXTRACT FROM THE NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

**RECEIVABLES**

<b>Staff receivables</b>	<b><u>2006/7</u></b>	<b><u>2005/6</u></b>
	<b>R</b>	<b>R</b>
Salary accounts	1,568,555	1,555,358
Staff advances	<u>6,578,544</u>	<u>5,987,652</u>
	<u>8,147,099</u>	<u>7,543,010</u>

Additional information

The audit team has obtained a schedule of advance amounts outstanding per employee as at 31 March 2007. This schedule contains, among other things, information on the original advance amount, the date granted, the amount per instalment (monthly recovery), the number of instalments recovered to date and the outstanding balance at year-end.

At the time of the audit of staff advances, the “salaries expense” has already been audited with satisfactory results.

**REQUIRED:**

Formulate the substantive audit procedures to be performed by the Auditor-General to verify the item “staff advances” included in staff receivables. (27)

Please note:

Your solution should not address the use of general audit software.

### QUESTION 3

(20 marks)

You are the senior manager on the audit of the South African Police Service (SAPS). You have recently attended the training given by the Auditor-General on the audit of performance information and you are very excited about implementing this during the audit. At the same time you are also responsible for identifying possible areas for performance audits to be conducted. According to Auditor-General policy you need to spend a minimum of 5% of your recoverable hours on performance auditing.

Based on the training received and various communications exchanged, you realise that you have to gain as much knowledge as possible about SAPS and their defined areas of performance. During the training the facilitator also emphasised the need to make sure that the different strategic documents' information is aligned. You therefore decide to start with a review of the SAPS's strategic plan, the Estimates of National Expenditure, the yearly performance plan and the annual report.

During the review of these documents you note that SAPS is responsible for the following five programmes:

- Programme 1 – Administration
- Programme 2 – Visible Policing
- Programme 3 – Detective Services
- Programme 4 – Crime Intelligence
- Programme 5 – Protection and Security Services.

The following measurable objectives have been identified for each of the programmes:

Programme 1: To provide for the development of departmental policy and the management of the department, including administrative support.

Programme 2: To discourage all crimes from occurring by providing a proactive and responsive policing service that will prevent so-called priority crimes from increasing.

Programme 3: To contribute to the successful prosecution of crime by investigating and gathering all related evidence, thereby preventing the successful detection rate from decreasing.

Programme 4: To contribute to the neutralization of crime by gathering, collating and analyzing intelligence information, which will lead to active and effective policing.

Programme 5: To minimise security violations by protecting foreign and local prominent people and by securing strategic areas.

An extract from the Programme Performance section of the yearly performance plan provided the following information:

Sub-programme	Priorities	Output	Service delivery indicator	Target
<b>Administration</b>				
Minister Deputy Minister Corporate Services	Developing Human Resources	Provision of needs based training	Percentage of training provided in terms of Training Provisioning Plan (TPP)	80% of Operational Training provided for in the TPP
<b>Visible Policing</b>				
Crime prevention	Proactive policing service relating to – social fabric – related contact crimes	Visible crime deterrence	Value and quantity of drugs seized	Maintain or increase

You also reviewed some of the internal audit reports and came across the following findings that you document as part of you internal risk assessment document:

Finding 1: Lack of adequate physical security measures over vehicles.

Finding 2: The database of suppliers for procurement is not being kept up to date.

Finding 3: Stock obsolescence provision increased by R50 million over two years.

**REQUIRED:**

- 1 Explain the difference between performance auditing and the audit of performance information. (2)
- 2 Mention the possible areas that could be selected as a focus area for a performance audit. (2)
- 3 List three advantages of conducting a performance audit on the selected focus area. (3)
- 4 Mention the aspects that need to be included in a performance audit report's finding to make it a complete finding. (3)
- 5 List the different working papers you would need to complete as part of your audit of performance information, and briefly explain the purpose of each working paper. (10)

## QUESTION 4

(40 marks)

You are an information technology specialist on the audit team for the National Public Service Medical Scheme (NPSMS). The scheme's staff is in the process of implementing an application system that will enhance the settlement of members' claims through service centres located throughout the country. The service centres will be directly linked to NPSMS's database located at its head office in Tshwane. Terminals at the service centres will also be able to extract information from the database.

Members will in future be able to hand in invoices from valid medical service suppliers at any of the service centres. These invoices and the member's detail as it appears on the invoice will be entered on-line on the NPSMS system and processed at head office for settlement within 15 days.

NPSMS applies the following rules related to claims by its members:

- 1 Benefits payable depends on the member's choice of option. Options are classified as Platinum, Gold, Silver and Bronze. Platinum has the most benefits, while Bronze is a basic hospital plan that also allows for R500's worth of consultations per member per year.
- 2 All suppliers of medical services need to be registered with the Health Profession Council of South Africa, and invoices must reflect a practice number as issued by the council.
- 3 When benefits are depleted for a specific service, NPSMS rejects the claim, and the member is responsible for payment.
- 4 Services are indicated using standard industry service codes and depending on the options, almost all types of services have annual limits to the benefits payable. All membership options, except Bronze, for example limit pathology (service code PHxxxxx) and radiology (service code RLxxxxx) to R700 per member per year.
- 5 Claims are only payable if received within three months of the date on which the service was rendered.
- 6 If the member paid the supplier directly, proof of payment is required for the member to be refunded.

The following are, *inter alia*, examples of some of the fields that were entered when a recent claim was submitted at a service centre:

- Membership number: 293961
- Date of service: 2007-08-15
- Practice number: 1476882
- Service code 1: RL15231
- Unit price: 568.22
- Quantity: 1
- Service code 2: CL10007
- Unit price: 280.00
- Quantity: 1
- Paid by member: YES or NO

The member's choice of option is only indicated on the database, and the membership number as such gives no indication of the option to which a member belongs.

The central database also has a supplier master file that is updated with information from the Health Professions Council. The master file includes the banking details of suppliers. Where a practice number cannot be allocated on the database, or banking details do not appear, the claim is put on hold and the Health Professions Council and supplier is contacted by NPSMS's head office.

The service codes above indicate radiology (RL) in the form of x-rays of the chest (15231) and CL10007 indicates a consultation (CL) by a radiologist (10007). A consultation by a general practitioner, for example, is indicated by CL10001.

**REQUIRED:**

- 1 Describe the different input validation tests that can be programmed into the NPSMS system to ensure the validity, completeness and accuracy of information entered, using the following format: (20)

Validation test:	Description:	Example in system:
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- 2 Discuss the different on-line access controls and data communication access controls to prevent unauthorised access that could be part of the system security controls of NPSMS. (Discuss passwords for a maximum of 3 marks). (20)