



The Southern African Institute of Government Auditors

Qualifying Examination for Registered Government Auditors

July 2004

INSTRUCTIONS TO CANDIDATES

- 1 Maximum marks: **200**.
- 2 Total time available: **five 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 No books or notes are allowed in the examination room.
- 6 Present your arguments clearly. Use well structured, clear, precise language and where appropriate, professional terms.
- 7 All working papers must be handed in together with all paper provided for the examination (including unused stationery).
- 8 Answers written in pencil will not be marked.
- 9 You will be informed of the results of the Qualifying Examination for RGAs by Tuesday 31 August 2004. No enquiries will be responded to before that date.

SAIGA
ADVANCING AUDITING AND ACCOUNTABILITY

PART I**(160 marks)****AUDIT PLANNING MEMORANDUM**
FOR THE REGULARITY AUDIT OF DEPARTMENT XYZ
FOR THE FINANCIAL YEAR ENDING 31 MARCH 2004

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1 OBJECTIVES OF THE AUDIT PLAN

The objectives of the audit plan are:

- To serve as a framework for the audit;
- To ensure that an effective and efficient audit is performed in order to adequately address the audit risk;
- The timely identification of the need for and role of specialists;
- To communicate important information to the audit team;
- To convey the expectations and needs of the management of the department to the audit team.

2 INTRODUCTION

This planning memorandum was prepared according to the envisaged audit strategy and is based on cumulative audit knowledge and experience, as well as important matters which have been brought to the attention of the auditors. During the planning process an understanding of the functioning of the department was obtained, including how it is organized and managed, and how it processes accounting and other information.

It should be noted that the planning of an audit is a continuous process and that the strategy and planned audit approach may change as new information comes to our attention during the course of the audit.

This document should ensure that expectations of all relevant parties are met and that the strategy takes full cognizance of significant management concerns.

3 ROLES AND RESPONSIBILITIES

3.1 Terms of reference

The annual financial statements and the notes thereto will be audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No 108 of 1996) as well as sections 3 and 5 of the Auditor-General Act, 1995 (Act No 12 of 1995) and the Public Finance Management Act, 1999 (Act No 1 of 1999) PFMA).

- (i) In terms of section 5 of the Auditor-General Act, when reporting on any accounts as required by section 4, the Auditor-General shall draw attention to the following material instances:

- Where a grant has been exceeded or has been used for a service or for a purpose other than that for which it was intended;
 - Where the utilization of resources for a service is uneconomical, inefficient, ineffective or not conducive to the best interests of the State or the statutory body concerned;
 - Where the use or custody of property, money, stamps, securities, equipment, stores, trust money, trust property or other assets occurs in a manner which is or may be to the detriment of the State;
 - Unauthorized expenditure, irregular, fruitless and wasteful expenditure;
 - Where the applicable internal control and management measures are inefficient or ineffective;
 - With regard to any other matter which should, in the public interest, be brought to the notice of Parliament.
- (ii) In terms of the PFMA, the Auditor-General will evaluate compliance with sections 36 to 45.
- (iii) In terms of the Constitution of the Republic of South Africa, the Auditor-General will audit in terms of section 188, sub-sections 1 to 4 inclusive.

3.2 Responsibilities of the auditors and management

The responsibility of the accounting officer is to prepare the financial statements of the organization in accordance with *Generally Recognized Accounting Practice (GRAP)*, and to submit them to the Auditor-General, within two months of year-end. Financial statements shall comprise the following:

- Balance sheet;
- Income statement;
- Cash flow statement;
- Statement of changes in equity;
- Notes thereto, together with all the additional information as might be required by the PFMA and TR.

The responsibility of the Auditor-General is to audit the financial statements and issue an audit opinion in accordance with South African Auditing Standards.

4 SCOPE OF THE AUDIT

4.1 Audit report required

A report of the Auditor-General on the annual financial statements of Department XYZ for submission to Parliament, is required. All matters raised in the previous year's financial statements will be followed up and reported on if necessary.

4.2 Extent of report

A regularity audit will be carried out and will consist mainly of an independent evaluation of the following:

- The extent to which the financial statements fairly present the activities of the department for the year.
- The accuracy, quality and completeness of the accounting records kept
- Confirmation that authorized expenditure is substantiated by sufficient and acceptable documentation
- Confirmation that sufficient and applicable internal control procedures are in place and maintained. (These controls include user controls as well as general and programmed controls in the computerized information systems environment)
- Confirmation that the internal audit function is effective and efficient and could be relied on by the Office of The Auditor-General
- Compliance with regulations, policies, acts and other directives applicable to financial matters
- Compliance with the budgetary control procedures

4.3 Elements of a regularity audit

The audit will be conducted in accordance with Statements of South African Auditing Standards. Those standards require that the audit be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,

- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations that came to the auditors' attention and are applicable to financial matters.

4.4 Financial management

Section 188 (1) of the Constitution states that the Auditor-General must audit and report on the accounts, financial statements and financial management of

- (a) all national and provincial state departments and administrations;
- (b) all municipalities; and
- (c) any other institution or accounting entity required by national or provincial legislation to be audited by the Auditor-General.

This provides the mandate for the Auditor-General to specifically focus on financial management. Following research conducted by the Office of the Auditor-General an approach for auditing financial management has been adopted. This approach is detailed below and essentially involves evaluating institutions against predetermined levels of financial management in terms of the financial management capability model. This will allow for assessing over time whether financial management is improving within an institution, and for the institution to be benchmarked against other departments.

In the initial stages this may lead to an increase in the audit resources to assess financial management. However, being able to assign reasons for shortcomings in the financial management process (and therefore in terms of internal controls), will be of a considerable value to the department. It will enable the identification of the cause of underlying problems in the department that have given rise to audit reporting issues. Furthermore, it will assist the auditee in focusing resources that will eventually enable the auditors to rely on the systems and thus reduce the audit resources required in the medium term.

Below is a basic overview of the financial management capability model, together with more detail on the key levels.

Level 1 – Start-up level

- No proper control framework
- Basic planning and reporting take place on an ad hoc basis
- Financial accounting and internal control systems are not properly developed
- No internal audit function or audit committee

Level 2 – Development level

Develop and implement a proper internal control framework and financial accounting processes:

- Financial accounting and internal control systems are developed and documented (including computer systems)
- Internal audit function and audit committee have been established.

Level 3 – Control level

- Focus on compliance with PFMA and other reporting requirements and the appropriate functioning of financial accounting and internal control systems.

Level 4 – Information level

- Focus on measuring how resources are used. The economic, efficient and effective utilization of resources should be managed, measured and reflected in reliable financial information.

Level 5 – Managed level

- Focus on balancing efficient and economical use of resources with quality and effectiveness of results achieved.

Level 6 – Optimizing level

- Focus on continuous improvement and learning.

The following categories will be focused on during the reporting on financial management:

Level 2

Lack of implemented controls in terms of:

- Policy framework not documented or approved
- Control environment issues e.g. segregation of duties, capacity
- Authorizations (no proper delegation of responsibilities)
- Computer environment (e.g. general control problems)
- Documentation issues (not possible to audit)
- No framework for performing independent reconciliations
- No physical security of assets and/or resources
- Inadequate internal audit function
- Inadequate audit committee

Level 3

Although management has implemented appropriate frameworks on level 2 (as above), these frameworks and controls may not be adhered to at all times.

Implemented controls that are not functioning appropriately can be broken down into the following categories:

- Authorizations, e.g. delegation of authority not followed by the employees
- Segregation of duties - not followed during everyday operations
- Reconciliation - not performed as required by the policy document
- Lack of physical security of assets
- Other policies and procedures are not followed by the employees
- Computer controls lacking (e.g. password controls are not followed by personnel)

If a level 2 problem is identified then this will clearly obviate any possibility of testing and reporting on level 3.

4.5 Specialized audits

The audit approach of the Office of the Auditor-General has been streamlined and incorporates certain dimensions of compliance, performance, forensic and computer audit.

Performance audit, forensic audit and computer audit assignments will be performed if a need for each is identified during the regularity audit or where such request is received from the department. These audits will then have a separate engagement and will be reported on separately.

4.6 Auditee's expectations

To ensure meaningful responses to our audit findings, the department will be given at least the following information in management letters:

- Indication of nature of findings (fundamental/ material/ housekeeping)
- Rating of the risks identified (critical/ serious/ minor)
- Details of official involved and the reasons behind the audit finding, if it could be determined
- Internal control weaknesses
- Deviations from prescribed accounting policies and deviations from legislative requirements.

All queries will be discussed with the relevant role-players at scheduled meetings. These role players will be responsible for controlling the follow-up, and will see to it that the necessary actions are taken.

The draft audit report will be discussed with the Chief Financial Officer and other members of management before finalization thereof.

4.7 Expectations of the Office of the Auditor-General

It is in the interest of accountability, transparency and adding value to the audit process that the responsibilities of the Office of the Auditor-General be respected, and that a mutual understanding and favorable relationship be achieved to enable us to perform a cost-effective audit.

5 CLIENT BUSINESS REVIEW AND BACKGROUND

5.1 Nature and overall objective of Department XYZ activities

Background information

Department XYZ was established in terms of section xxx of the Constitution of the Republic of South Africa, 1996. The Constitution requires that there will be a Department XYZ for the Republic of South Africa to enhance excellence in the public sector.

Mission statement

Department XYZ is committed to assist Parliament in strengthening excellence in governance and democracy in the Republic of South Africa by enhancing fairness and efficiency in the provision of governmental services.

Objectives

In achieving its mission Department XYZ is committed to the following values:

- Impartiality, efficiency, objectivity, professionalism, accountability and where necessary confidentiality.
- The Department is committed to treat people with courtesy, consideration, openness and honesty and to respect their privacy.

5.2 Business activities and location

Name	Rank	Tel No	Fax No	E-mail
A	Accounting Officer	X	X	X
B	Director Corporate services	X	X	X
C	Assistant Director - HR	X	X	X
D	Assistant Director - Provisioning	X	X	X
E	Chief Financial Officer	X	X	X
F	Financial Manager	X	X	X
G	Public Relations	X	X	X
H	Internal Audit	X	X	x

Physical address: 1 Mandela Street
Tshwane
0007

Postal address: Private Bag X 777
Tshwane
0001

Contact person: E
E-mail: X
General Tel: X
Fax: X

Offices:

- Head Office: Tshwane-Gauteng
- Regional offices
- Eastern Cape
 - North West
 - Mpumalanga
 - Western Cape
 - KwaZulu-Natal
 - Free State
 - Limpopo
 - Northern Cape

Registration numbers for:

VAT: 463982011
PAYE/SDL: 907 39068

Banking details:

Bank name: Peoples Bank
Type of account: Cheque Account
Bank account number: 0190160703

Attorney details:

Utilizes the state attorney

5.3 Accounting systems and financial statements

The annual financial statements will be compiled on a modified cash basis of accounting as prescribed by National Treasury.

5.4 Size of entity

Total number of staff: 458 employees
2003: 445 employees

5.5 Applicable laws and regulations

The following laws, rules and regulations have been incorporated in our audit, where applicable:

- Constitution of the Republic of South Africa, 1996 (Act No 108 of 1996)
- Public Finance Management Act, Act No 1 of 1999
- Public Service Act, Act 1994
- Labour Relations Act, Act No 66 of 1995
- Employment Equity Act, Act No 55 of 1998
- Basic Conditions of Employment Act, 1997
- State Tender Board Act, Act No 86 of 1968
- Treasury Regulations (issued in terms of the PFMA)
- Skills Development Act

Accounting policies

All policies are accounted for on the modified cash basis and have been consistently applied in all material respects.

Revenue

Revenue comprises transfer payments from National Treasury and receipts from Donors.

Accounting framework

The annual financial statements for the year ended 31 March 2004 will be prepared in accordance with *Generally Recognised Accounting Practice* and directives from National Treasury.

6. CONTROL RISK ASSESSMENT

The preliminary control risk assessment will be made by obtaining an understanding of the accounting and internal control systems by means of evaluation of the control environment, documenting of business processes and identification of key controls.

The control environment comprises the overall attitude, awareness and actions of management regarding the internal control system and its importance in the entity, and includes management's control systems.

6.1 Budgetary control

Control procedures to ensure that no unauthorized, irregular, fruitless or wasteful expenditure occurs, is the responsibility of the Director: Corporate Services and the Chief Financial Officer.

Control measures to ensure that no uneconomical acquisitions or ineffective/ under utilization of resources occurs, is the responsibility of the Director: Corporate Services and the Chief Financial Officer.

6.2 CIS environment

The department uses the following systems:

- HR Focus
- Microsoft Great Plains Dynamics

The internal auditors will review the general computer controls in April 2004, after which the proposed reliance on general controls surrounding the HR Focus and Microsoft Great Plains Dynamics systems by the external auditor will be evaluated. Their specific findings on the various applications have to be assessed by the external auditors prior to any reliance being placed on the systems.

6.3 Audit committee

The audit committee has been effective in complying with the requirements as set out in the Audit Committee Charter and the PFMA. The committee has been effective in communicating with the internal auditors and giving consideration and response to their findings. There has also been effective communication with the external auditors.

MEMBERS		
Ex-officio members from the Department	Non-executive members	Invitees from the Office of the Auditor-General
A	CD	FG
E	DE	GH
	EF	HI

6.4 Internal audit

The internal audit function has been contracted out to ABC, an emerging firm, in line with the policy of the department. The internal auditors have performed extensive tests of internal controls. The focus areas of the internal audit unit were decided upon after consultation with the external auditors. Furthermore, the work performed by internal audit was for the entire financial year under review. The external audit team will evaluate the work performed by internal audit and determine whether reliance can be placed on that work in order to reduce the audit work to be executed by the external auditor.

If the methodology utilized by the internal auditors is not acceptable for external audit purposes, no reliance will be placed on the work performed by the unit.

6.5 Follow up matters from prior year

SCOPA resolutions: There are no SCOPA hearings scheduled for the current year.

Management letters: A management letter for the accounting period 2002/2003 was issued to management. Audit procedures will be planned and executed to ensure that the findings contained in the management letter are addressed.

Audit reports: Any matters included in the 2002/2003 management report and financial statements which have not been addressed by management will be re-addressed in the audit report for the financial period 2003/2004 that will be issued to management.

7. INTERNAL CONTROL SYSTEMS

The risks listed below include both possible risks, identified during the documentation of the accounting systems that are in place in the department, as well as actual risks, identified and reported on in the prior year's management letter.

Component	Assertion	Assessment of risk	Risk
Revenue / Receivables	Completeness / Existence	Low	Long outstanding revenue is not followed up. Receipts not issued for revenue received. Not all income received is recorded. Lack of supporting documents for revenue.
Donor Funds	Validity / Accuracy	Low	Expenses not authorized in terms of the agreement with the donor. Misallocation of expenditure to donor funds. State funds used for the payment of donor expenditure. Lack of supporting documentation for validation of transactions.
Purchases and Payables	Validity	Low	Purchases and payables may be incorrectly classified and may not be complete, accurate and valid. Provisions inaccurately provided for at year end.
Fixed Assets / Asset Management	Existence / Completeness	Medium	Inaccurate, incomplete fixed asset register. Deficiencies in safeguarding of assets.
Bank	Validity / Accuracy	Medium	Unauthorized cheque payments are made. Bank reconciliations not performed or not performed timeously. Unauthorized EFT payments are made.

			Reconciling items are not cleared timeously.
Personnel	Existence / Validity	Medium	Changes to payroll may not be detected (ghost employees). Payroll collection reports not signed by employees. Lack of performance contracts.
Financial Management	Compliance	Medium	Non compliance with PFMA, rules and regulations.
Budget Process	Validity / Accuracy	Low	Overspending / Unauthorized expenditure.
Disclosure	Compliance	Low	Non compliance with GRAP.

8. CONCLUSION: CONTROL RISK ASSESSMENT

8.1 Overall control environment conclusion

The control environment, in terms of management's competencies, is functioning effectively. There are sections within IT and finance (fixed assets) which were not implemented during the previous financial year, but these sections were in the process of being implemented. Due to the size of the department there is an inherent risk with regard to lack of segregation of duties. However, more focus has been placed on the compensating controls implemented to address this.

8.2 Inherent risk assessment

Inherent risk assessment at financial statement level

Inherent risk assessment for the department is moderate for the following reasons:

- The department has not undergone any major restructuring.
- The department has implemented a risk identification system and a fraud prevention plan.
- The department has sufficient appropriately qualified staff: however there is limited segregation of duties in the finance division.
- Budgetary constraints have resulted in regional offices functioning with limited resources. This in turn affects the service delivery from these offices.

9. ASSESSMENT OF MATERIALITY

9.1 Quantitative materiality

We consider materiality at both the overall financial statement level and in relation to individual account balances, classes of transactions and disclosures. Materiality may be influenced by considerations such as legal and regulatory requirements, individual financial statement account balances and by relationships. This process may result in different materiality levels, depending on the aspect of the financial statements being considered.

The materiality levels calculated below were arrived at by using the budget figures for the current financial year.

The overall planning materiality for the entity has been set at R520 000 (2003: R480 000).

The materiality basis has been selected after considering the following:

- New internal audit procedures were implemented during the year.
- The accounting policies and disclosure thereof seem to be appropriate.
- The audit report for 2003 financial year was unqualified. There was an emphasis paragraph related to the internal audit function.

9.2 Qualitative materiality

Qualitative materiality plays an important role in the evaluation of the findings of an institution in the public sector. Qualitative characteristics to assess the materiality of an item, include the following:

- Public accountability
- Compliance with legislation
- Disclosure requirements
- Reporting requirements in terms of section 5 of the Auditor-General Act
- Sensitive situations, including transactions with officers, irregularities, illegal and questionable transactions
- Importance of information for users thereof

10. CORPORATE GOVERNANCE

Corporate governance is concerned with structures and processes for decision making, accountability, control and behavior at the management level of organizations.

At present the department has an effective Audit Committee, which monitors the activities of management and follows the progress of addressing areas of weakness that are being identified.

The Office of the Auditor-General is represented at Audit Committee meetings.

The department has monthly management committee meetings that monitor the activities of the department.

11. PLANNED AUDIT APPROACH

11.1 General

The audit will be conducted in accordance with the audit approach of the Auditor-General, which complies with South African Auditing Standards.

During the preliminary audit work, the following conclusions were drawn:

Our evaluation of the control environment indicated that the audit approach would be a control based audit. The extent of reliance that can be placed on the internal control environment and the information systems will be evaluated during the execution of the audit.

A control based approach will require a test of controls as well as limited substantive testing. Should any weaknesses in controls be identified, it would result in an increase in substantive tests.

Samples will be selected using CAATs. CAATs will ensure that samples are statistically selected and representative of the entire population. The CAATs data will be provided by the department. However, the control totals will be verified prior to any utilization of the CAATs data.

Compliance with the applicable laws and regulations applicable to financial matters will also be investigated.

As mentioned in paragraph 6.4, the audit will also include the evaluation of the work performed by the internal audit unit, for reliability for external audit purposes.

The auditors' execution of tests will include planned visits to three regional offices. These offices will be selected and visited during the execution phase of the audit, in consultation with management. At these regional offices the auditors will evaluate the following:

- Existence of assets
- Existence of personnel
- The control environment at the relevant regional office, with regard to pre-determined focus areas.

12. ADMINISTRATION

12.1 Audit steering committee

The aim of this committee is to establish formal communication channels between the Office of the Auditor-General and the auditee, to accomplish sound co-operation between these parties.

The audit steering committee will consist of the following persons:

NAME	NAME
<i>Office of the Auditor-General</i>	<i>Department</i>
FG	A
GH	E
HI	

12.2 Target dates

The final reporting date is 31 July 2004. The approved audit report should be handed back to the department on this date.

Due to the reporting dates of the PFMA (31 July 2004), the final audit will be conducted from May 2004 for the current year under review.

An executive summary highlighting significant audit findings, for the attention of senior management, will also be forwarded during the month of July 2004.

12.3 Audit fee

The budgeted audit fee, compared with that of the previous year, is as follows:

	2004	2003	
	Budget	Actual	Budget
Regularity Audit			
Hours	1950	1002	1004
Cost	R 520000	R 496200	R 484000

Current Year:

The increase in time and cost versus the actual cost of the prior year is due to the following:

- The net effect of the increase in scope, with the implementation of a new focus area, Financial Management, as well as the increase in audit hours due to the planned reliance on the work performed by the internal audit unit, as indicated in paragraph 6.4. In the previous year no reliance was placed on the work of the internal auditors.

The above budget provision assumes the availability of management and the timely submission of audit information.

12.4 Audit team

The audit team will consist of appropriately skilled and qualified staff - the business executive as well as the senior manager are both RGAs. The regional office of the Auditor-General will conduct the audit of the department's regional offices. However, the overall responsibility for the audit, vests with the National Office of the Auditor-General in Tshwane.

The audit team will comprise of the following persons:

	Name	Role player	Contact details
Business executive	FG (RGA)	Quality Assurance	(012) 422-9000
Senior Manager	GH (RGA)	Project Manager	(012) 422-9001
Manager	HI	Audit Process Management	(012) 422-9002
Assistant Manager	IJ	Audit Process Management	(012) 422-9003

Physical address: 300 Middle Street
New Muckleneuk
Tshwane

Contact number: (012) 422-9000

Fax number: (012) 422-9500

13. APPROVAL

Prepared by:

GH

Date

Approved by:

FG

Date

QUESTION 1

(31 marks)

The *audit planning memorandum* contains the following statement with regard to the *Public Finance Management Act*, (Act 1 of 1999, as amended) (PFMA):

“In terms of the PFMA, the Auditor-General will evaluate compliance with sections 36 to 45.”

Furthermore, in terms of section 38 (a)(i) of the PFMA, the Accounting Officer *“must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control”*.

The Department XYZ is aware of the fact that the concepts of effectiveness, efficiency and transparency are not concrete constructs, but subject to individual interpretation and evaluation. They are never achieved absolutely, as one can always strive to be *more* effective, efficient and transparent.

To meet the requirements of the PFMA with regard to their system of internal control, the Director: Finance in conjunction with a number of staff members have started a process which is outlined below.

All internal control procedures that are carried out, have been identified and briefly described. A spreadsheet programme was used to enter these descriptions together with a number of other data, for example the nature of the procedure (preventative, detective, corrective). Where possible, these characteristics have been translated (codified) into numbers (preventative = 1, detective = 2, corrective = 3). This enabled the staff to calculate a mean value for the column which again assisted them to identify problem areas or to make other appropriate conclusions.

An extract of the spreadsheet is produced below. The Department is now busy assessing the cost and risk associated with each control procedure (high, medium, low). This exercise is aimed at identifying mismatches – for example a high cost and a low risk. Measures to correct these mismatches will address the concept of economy (one of the three Es).

Since the PFMA also requires the internal control system to be “transparent”, you also have to evaluate this aspect. Your enquiry with the Department in this respect, however, did not yield any specific results as you were told that “...we do not know what to do to make the internal control system more transparent.”

Extract of the spreadsheet:

Internal controls in the department				Cost	Risk
	1 = Prevent	Program	1 = Computer	1 = low	1 = low
	2 = Detect		2 = Manual	2 = med	2 = med
	3 = Correct			3 = high	3 = high
Description of control A	3	1	2		
Description of control B	2	4	2		
Description of control C	1	4	1		
Description of control D	2	2	2		
Description of control E	2	3	1		
Description of control F	3	3	2		
Description of control G	1	1	1		
extract : not all detail displayed					
Description of control AZ	3	1	1		
Description of control BA	3	3	2		
Description of control BB	2	4	2		
Description of control BC	1	4	1		
Description of control BD	3	3	2		
Description of control BE	3	2	2		
Description of control BF	2	1	1		
Description of control BG	1	2	2		
ASSESSMENT FACTOR (mean value)	2.2		1.8		

YOU ARE REQUIRED TO:

- a) identify other characteristics or data that can be collected and entered into the spreadsheet and explain how these, together with the data already captured, can be used to improve efficiency, effectiveness and economy (give four examples); (8 marks)
- b) give an example of each of the following types of internal controls: preventative, detective, corrective; (3 marks)
- c) discuss briefly how the above actions taken by the Department XYZ may ensure that the Accounting Officer of the Department will not be judged to have committed a “financial misconduct” as described in terms of the PFMA. (6 marks)
- d) explain how the PFMA’s requirement of setting measurable objectives as part of the management approach is aided by the exercise the Department conducts by means of its spreadsheet. (3 marks)
- e) describe steps the Department can take to make their internal control system more “transparent”; (5 marks)

- f) explain the three types of “unwanted” expenditure referred to in section 38 (h)(iii) of the PFMA. (6 marks)

QUESTION 2

(14 marks)

In evaluating the PFMA compliance, as part of your audit, you have to be aware of the fact that certain sections and implementation issues have been given a higher priority than others. This is reflected by the fact that the Minister of Finance delayed implementation of particular sections for a period and also granted exemptions to some institutions for a certain period. Over and above this, the National Treasury issued an Implementation Plan that prioritised certain activities.

YOU ARE REQUIRED TO:

briefly discuss seven prioritised activities contained in the National Treasury's Implementation Plan.

QUESTION 3

(20 marks)

Every member of the audit team is currently using a (computer) note book to record the audit progress and other relevant information. The extensive use of these appliances has resulted in more and more information being stored on these note books, relating not only to the auditee's data and information, but also to the administration of the audit itself.

YOU ARE REQUIRED TO:

- a) list ten types of important and/or sensitive information that is stored on the note book that you would not like to be exposed to the auditee's staff. (5 marks)
- b) prepare a security program (for use by your audit staff) that will ensure that the data extracted from the auditee's system, your own data relating to the audit, as well as the note books themselves, will not be misused. (15 marks)

QUESTION 4

(25 marks)

In line with the *audit planning memorandum* of the Office of the Auditor-General, a review of the general controls of the computer systems was performed by the Department's internal audit division, after which the proposed reliance on general controls surrounding the Department's computer system and application software was evaluated by the audit team. The specific findings on the various applications were assessed by the audit team and it was decided that a “medium” level of reliance could be placed on the system.

Given the fact that the data relating to the Department's fixed assets is available in electronic format and in view of the assessment of the controls in this respect, you

have decided to use general audit software to obtain further audit evidence relating to the assertions of the item “fixed assets” – referring to the following audit objectives: existence, ownership, value, disclosure, cut-off and related income and expenditure.

YOU ARE REQUIRED TO:

- a) identify and briefly explain the factors that you would have to consider before using general audit software; (10 marks)
- b) explain, with reference to the above audit objectives, how general audit software could be used to perform audit procedures that would assist in achieving the above mentioned audit objectives. (15 marks)

QUESTION 5

(50 marks)

YOU ARE REQUIRED TO:

- a) describe in detail the preliminary auditing procedures to assess the internal audit function that should have taken place before drafting the *audit planning memorandum*; (30 marks)
- b) discuss the procedures and processes which the external auditors should follow to evaluate the work performed by the internal auditors, to determine whether reliance could be placed on their work in order to reduce the external audit work. (20 marks)

QUESTION 6

(20 marks)

The risks listed in the *audit planning memorandum* indicate that there is a medium risk (existence / validity) in the personnel department. The risk refers to the following: "Changes to payroll may not be detected (ghost employees); Payroll collection reports not signed by employees; and Lack of performance contracts".

YOU ARE REQUIRED TO:

describe the audit procedures to address the risk of ghost workers.

PART II**(40 marks)****QUESTION 1****(22 marks)**

The following information relates to the Department of Community Affairs for the year ended 31 March 2003:

INCOME STATEMENT

	2003
	R'000
REVENUE	
Voted funds	
Charge to Provincial Revenue Fund	772 324
Statutory appropriation	676
Non voted funds	
Other revenue to be surrendered to revenue fund	58
Local and foreign aid assistance (including RDP funds)	380
TOTAL REVENUE	<u>773 438</u>
EXPENDITURE	
Current	
Personnel	233 240
Administrative	46 879
Inventories	66 604
Machinery and equipment	7 078
Land and buildings	528
Professional and special services	65 737
Miscellaneous	561
Special functions: authorised losses	178
Local and foreign aid assistance (including RDP funds)	260
TOTAL CURRENT EXPENDITURE	<u>421 065</u>
Capital	
Inventories	7 439
Machinery and equipment	20 231
Professional and special services	321 820
TOTAL CAPITAL EXPENDITURE	<u>349 490</u>
TOTAL EXPENDITURE	<u>770 555</u>
NET SURPLUS	2 883
Add back unauthorised expenditure	3 045
NET SURPLUS FOR THE YEAR	<u><u>5 928</u></u>

BALANCE SHEET

	2003	2002
	R'000	R'000
ASSETS		
Current assets		
Unauthorised expenditure	6 064	3 042
Cash and cash equivalents	-	4 669
Receivables	4 587	1 895
Non-current assets		
Receivables	680	139
TOTAL ASSETS	11 331	9 745
LIABILITIES		
Current liabilities		
Voted funds to be surrendered	6 492	5 882
Revenue funds to be surrendered	58	104
Bank overdraft	1 151	-
Payables	3 530	3 759
Local and foreign aid assistance repayable to donors	100	-
TOTAL LIABILITIES	11 331	9 745
NET ASSETS	0	0

ADDITIONAL INFORMATION

1 An analysis of the surplus for the year is as follows:

	2003
	R'000
Voted funds to be surrendered to the Provincial Revenue Fund	5 750
Non voted funds:	
Other revenue to be surrendered to the Revenue Fund	58
Local and foreign aid assistance not utilised	120
	5 928

2 Erroneously included in "Special functions: authorised losses" in the income statement is an amount relating to unauthorised expenditure incurred during the year ended 31 March 2002. This amount has been authorised by Parliament in 2003, provided it is recovered from voted funds allocated in 2003.

3 The voted funds as per the income statement include funds of R2 300 000 which was not received during the 2003 financial year.

4 Other revenue to be surrendered to the Revenue Fund includes proceeds on the sale of equipment amounting to R4 700 000.

YOU ARE REQUIRED TO:

prepare the cash flow statement of the Department of Community Affairs for the year ended 31 March 2003, without comparative figures. Notes that relate to the cash flow statement are also required.

QUESTION 2

(18 marks)

The following represents the balance sheet and notes to the balance sheet of the Department of Tourism Development, as extracted from the department's annual report:

**DEPARTMENT OF TOURISM DEVELOPMENT
BALANCE SHEET (STATEMENT OF FINANCIAL PERFORMANCE)
for the year ended 31 March 2003**

	Note	2003 R'000	2002 R'000
ASSETS			
Current assets		1 327	475
Unauthorised, fruitless and wasteful expenditure	12	1	-
Cash and cash equivalents	18	(659)	(701)
Receivables	14	1 781	963
Loans	15	204	204
Revenue to be recovered	17	-	9
TOTAL ASSETS		1 327	475
LIABILITIES			
Current liabilities		1 304	475
Voted funds to be surrendered	16	1 195	427
Revenue funds to be surrendered	17	62	-
Payables	19	47	48
TOTAL LIABILITIES		1 304	475
NET ASSETS		23	-

BALANCE SHEET (continued)	Note	2003 R'000	2002 R'000
EQUITY		11	-
Capitalisation reserve		-	-
Recoverable revenue		3	-
Local and foreign aid assistance owing to donors	4	8	-
TOTAL EQUITY		11	-

DEPARTMENT OF TOURISM DEVELOPMENT (VOTE 100)
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 March 2003

4	Local and foreign aid assistance	Opening balance	Revenue	Expen- diture (current)	Closing balance
		R'000	R'000	R'000	R'000
4.1	Assistance received in cash				
	Foreign: France government	-	25	17	8

	2003 R'000	2002 R'000
Analysis of balance		
Amounts owing to donors	8	-

	Note	2003 R'000	2002 R'000
12	Unauthorised and fruitless and wasteful expenditure disallowed		
	Unauthorised expenditure	1	-

12.1	Reconciliation of unauthorised expenditure		
	Unauthorised current year	1	-
	Closing balance	1	-

13	Analysis of surplus		
	Voted funds to be surrendered to the Revenue Fund	10 934	623
	Non voted funds	243	113
	Other revenue to be surrendered to the Revenue Fund	235	113
	Local and foreign aid assistance not utilised	8	-
	Total	11 177	736

14 Receivables – current			
Amounts owing by other departments		1 575	866
Staff debtors	14.2	206	97
		<u>1 781</u>	<u>963</u>
14.1 Amounts of R51 000 (2002: R30 000) included above may not be recoverable, but have not been written off in the income statement			
		2003	2002
		R'000	R'000
14.2 Staff debtors			
T & S advances account		143	33
Disallowance account		22	14
Debt account		49	50
Tax debt account		(8)	-
		<u>206</u>	<u>97</u>
15 Loans			
Granted to employees		204	204
16 Voted funds to be surrendered			
Opening balance		427	169
Transfer from income statement		10 862	623
Voted funds not requested / not received		(9 647)	(196)
Paid during the year		(427)	(169)
Closing balance		<u>1 215</u>	<u>427</u>
17 Revenue funds to be surrendered			
Opening balance		(12)	2
Transfer from income statement for revenue to be surrendered		235	113
Paid during the year		(161)	(124)
Closing balance		<u>62</u>	<u>(9)</u>
18 Cash and cash equivalents			
Paymaster General Account		(679)	(721)
19 Payables – current			
Amounts owing to other departments		-	5
Other payables	19.1	47	43
		<u>47</u>	<u>48</u>
19.1 Other payables			
Recovery interest debt		1	5
Income tax		44	37
Tax debt		-	1
		<u>47</u>	<u>43</u>

YOU ARE REQUIRED TO:

critically evaluate the above balance sheet and accompanying notes and indicate any errors/non-compliance with National Treasury's Guide for the preparation of annual reports (including the specimen financial statements issued by National Treasury). Your discussion should be limited to the information supplied in the question.