



“Investing in Africa’s future”

COLLEGE OF BUSINESS, PEACE, LEADERSHIP AND GOVERNANCE

NCIS 309: INFORMATION SYSTEMS AUDIT AND CONTROL

END OF FIRST SEMESTER EXAMINATIONS

NOVEMBER 2021

LECTURER: MS I.CHIBANDA

TIME: 5 HOURS

INSTRUCTIONS

Answer **TWO** questions from this paper

Question **ONE** is compulsory and choose any ONE question from Section B

All questions, are essay questions.

The marks allocated to **each** question are shown at the end of the section.

Marks will be awarded for giving logical examples.

Section A

Question 1

Oak is a subsidiary of Isaiah Publishing and specializes in the publication and distribution of reference books. Oak's sales for the past year exceeded \$16 million, and the company employed an average of 60 employees. Isaiah periodically sends a member of its internal audit department to audit the operations of each of its subsidiaries, and Sally Skill, Oak's treasurer, is currently working with Tatenda Great of Isaiah's internal audit staff. Tatenda has just completed a review of Oak's investment cycle and prepared the following report.

General

Throughout the year, Oak has made both short-term and long-term investments in securities; all securities are registered in the company's name. According to Oak's bylaws, long-term investment activity must be approved by its board of directors, while short-term investment activity may be approved by either the president or the treasurer.

Transactions

Oak has a computer link with its broker; thus, all buy and sale orders are transmitted electronically. Only individuals with authorized passwords may initiate certain types of transactions. All purchases and sales of short-term securities in the year were made by the treasurer. In addition, two purchases and one sale of long-term securities were executed by the treasurer. The long-term security purchases were approved by the board. The president, having online authorization access to all transactions, was able to approve a sale of a long-term security. The president is given access to authorize all transactions engaged in by the firm. Because the treasurer is listed with the broker as the company's contact, all revenue from these investments is received by this individual, who then forwards the checks to accounting for processing.

Documentation

Purchase and sales authorizations, along with brokers' advice, are maintained in an electronic file with authorized access by the treasurer. Brokers' advice is received verbally on the phone, and this advice is noted on a broker advice form. This form is filed by the treasurer. The certificates for all long-term investments are kept in a safe deposit box at the local bank; only the president of Oak has access to this box. An inventory of this box was made, and all certificates were accounted for. Certificates for short-term investments are kept in a locked metal box in the accounting office. Other documents, such as long-term contracts and legal agreements, are also kept in this box. There are three keys to the box, held by the president, treasurer, and the accounting manager. The accounting manager's key is available to all accounting personnel, should they require documents kept in this box. Certificates of investments may take up to four weeks to receive after the purchase of the investment. An electronic inventory list is kept perpetually. The data are keyed in by accounting personnel who receive a buy/sale transaction sheet from the treasurer.

The president, treasurer, and accounting manager all have passwords to access and update this inventory list. The accounting manager's password is known by two of the accounting supervisors in case the inventory list needs to be updated when the accounting manager is not

available. Documentation for two of the current short-term investments could not be located in this box; the accounting manager explained that some of the investments are for such short periods of time that formal documentation is not always provided by the broker. Accounting Records Deposits of checks for interest and dividends earned on investments are recorded by the accounting department, but these checks could not be traced to the cash receipts journal maintained by the individual who normally opens, stamps, and logs incoming checks. These amounts are journalized monthly to an account for investment revenue. Electronic payments for investment purchases are authorized by the treasurer. If the amount is in excess of \$20,000, an authorization code given by the treasurer or president is necessary. Each month, the accounting manager and the treasurer prepare the journal entries required to adjust the short-term investment account.

There was insufficient backup documentation attached to the journal entries reviewed to trace all transactions; however, the balance in the account at the end of last month closely approximates the amount shown on the statement received from the broker. The amount in the long-term investment account is correct, and the transactions can be clearly traced through the documentation attached to the journal entries. No attempts are made to adjust either account to the lower of aggregate cost or market.

To achieve Isaiah Publishing's objective of sound internal control, the company believes the following four controls are basic for an effective system of accounting control.

- Authorization of transactions
- Complete and accurate record keeping
- Physical control
- Internal verification

REQUIRED

- a) Describe briefly the purpose of each of the four controls listed above. **(8 marks)**
- b) Identify an area in Oak's investment procedures that violates each of the four controls listed above. **(18 marks)**
- c) For each of the violations identified, describe how Oak can correct it. **(18 marks)**

Section B

Question 2

As an internal auditor for Swift Manufacturing Company, you are participating in the audit of the company's accounting information system. You have been reviewing the internal controls of the computer system that processes most of its accounting applications. In addition to this you all did the following: -

- a) Studied the company's extensive systems documentation.
- b) Interviewed the information systems manager, operations supervisor and other employees to complete your standardized computer internal control questionnaire.
- c) Report to your supervisor that the company has designed a successful set of comprehensive controls into its computer systems.

Your supervisor thanks you for your efforts and asks for a summary report of your findings for inclusion in a final overall report on accounting internals

REQUIRED

To assess if all the audit steps have been included. To finalise your report list five examples of specific audit procedures that you might recommend before reaching a conclusion. **(16 marks)**

Question 3

You are the director of internal audit department at a university. Recently you met with Jane Koko the manager of administrative data processing and expressed the desire to establish a more effective interface between the two departments. Jane wants your assistance with the new computerised accounts payable system currently in development. She recommends that your department assume line responsibility for auditing suppliers' invoices prior to payment. She also wants internal audit department to make suggestions during the system development, assist in its installation, and approve the completed system after making a final review.

REQUIRED

In accordance with the requests above would you accept each of the following? To ensure that Jane is left in no doubt about your decisions provide convincing justification for your response.

- a) The recommendation that your department be responsible for the pre-audit of suppliers' invoices.
- b) The request that you make suggestions during systems development
- c) The request that you assist in the installation of the system and approve the system after making a final review. **(16 marks)**

END OF EXAMINATION