

SECTION A – Answer ALL THREE questions in this section

Question 1

You are the auditor of Egret Ltd a company that manufactures machine parts. You have been provided with the following information in respect of the purchase, receipt, storage and issue of the high-cost components used in production.

Components are stored in an unlocked storeroom which is staffed by two clerks who are responsible for the receipt, issue and recording of components. The company's stock control system consists of computerised stock records supported by monthly counts. The system is password protected, but the clerks can amend the stock balances and the standing data using the same password.

When components arrive from the supplier, one of the storeroom clerks checks the quantity and compares this with the supplier's delivery note which is initialled, dated and filed in the storeroom as evidence of goods received. The clerks issue components on receipt of requisitions which are completed by the operatives requiring the items.

The storeroom clerks update the stock balances by inputting the details on the requisitions and supplier delivery notes. A physical count is made at the end of each month by the storeroom clerks who check the quantity on hand with the quantity on the stock records. Where there is a difference, the storeroom clerks adjust the book quantity to reflect the physical quantity.

The computer generates, on a daily basis, a report of items at the minimum reorder level. This report is used by the purchase ledger clerk to prepare a purchase order for a pre-determined order quantity for each component. The purchase ledger clerk is also responsible for mailing the purchase order to the supplier from whom the component was last ordered.

Required

Identify, in respect of the system described above:

- (i) the internal control weaknesses;
- (ii) the potential consequences of those weaknesses; and
- (iii) recommendations for improvement.

Total: 20 marks

Question 1

Weakness	Consequence/risk	Recommendation
Components stored in an unlocked storeroom Requisitions not authorised	Unauthorised removal of components	Storeroom should be locked with keys/PINs available to authorised staff All requisitions to be authorised by a supervisor
Storeroom clerks responsible for receipt, issue, recording and counting of stock	Unauthorised removal of components may not be detected	The stock counts should be undertaken by employees who are not responsible for custody or recording of stock
Storeroom clerks can amend standing data using the same password	Unauthorised amendments may be made to the stock records. Stock lines could be added to or deleted from the system	Storeroom clerks should not be allowed to amend standing data. Passwords should be individual and should control level of access
Invoice clerk responsible for ordering and invoice processing	Risk of unauthorised purchases/goods for own use	Split duties of ordering and invoice processing
Automatic re-ordering from last supplier	Risk of unfavourable terms	Obtain quotes for high cost items taking into account quality and delivery times
No check on quality of components on arrival	Substandard components may result in faulty products and/or production delays	Components to be inspected on arrival for quality and specification
Quantity of goods not checked to order	Short/over deliveries	Delivery note and goods checked to order
Invoice not checked to receiving documents	Pay for goods not received	Delivery note to be sent to invoice clerk to be matched with invoices

1 mark per weakness

1 mark per consequence

up to 2 marks per recommendation (depending on level of detail/precision)

Maximum marks: 20

Possible marks: region of 26