Past Exam Revision

- 2018 Mar/Jun Q16 (a)

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How to approach *Test of Control* questions

Step 1:

Allow some of your allotted time to read the requirements and the scenario. Don't rush into starting to write your answers.

Step 2:

Re-read the scenario and start to develop an answer plan. Use the table headings provided and as you read through the scenario for the second time, write down a few words or a bullet point.

Step 3:

Re-read the requirements to confirm how many test of controls you need to explain. You may have written down more points than required, in which case you need to decide which ideas you can explain most easily and include those in your answer. You should describe the control activities and explain the implications, then you go forward to corresponding test of controls

Step 1
Information Analysis
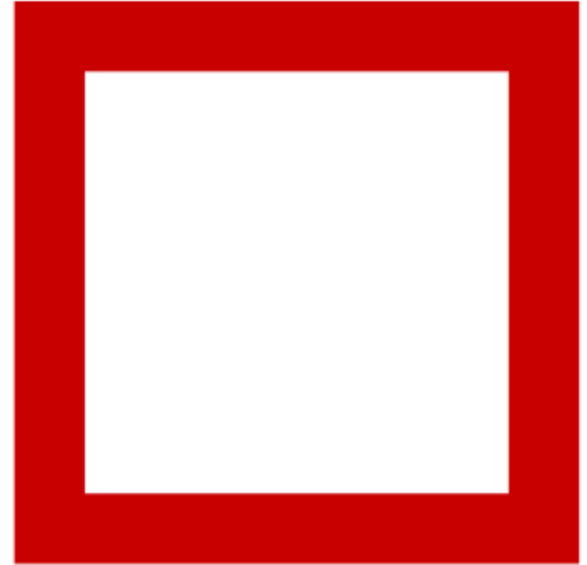
Past Exam Revision- *Requirement Analysis*

- Start by analyzing the requirement so that you know what you are looking for when you read the scenario.

Required:

(a) In respect of the payroll system for Raspberry Co:

    (i) Identify and explain **FIVE KEY CONTROLS** which the auditor may seek to place reliance on; and

    (ii) Describe a **TEST OF CONTROL** the auditor should perform to assess if each of these key controls is operating effectively.

Note: Prepare your answer using two columns headed Key control and Test of control respectively. The total marks will be split equally between each part.   (10 marks)

Past Exam Revision- *Information Analysis*

The first part of the requirement is to 'identify and explain FIVE key controls '. Here you need to use the scenario to generate FIVE effective controls facilitating the smooth running of the business.

Remember there are two verbs in this requirement, which means you have to do **two things** in you answers:

1. **Identify the control**

2. **Explain the implication brought by the control**

Past Exam Revision- *Information Analysis*

The second part of the requirement is to 'describe the corresponding test of control'. Here you should clearly describe how can the auditor to apply audit procedures to test the effectiveness of the internal controls mentioned in above requirement.

Specify the TOC audit procedure as possible as you can, and don't use vague words, such as 'discuss with the management', 'check relevant document'.

Step 2
Answer plan development
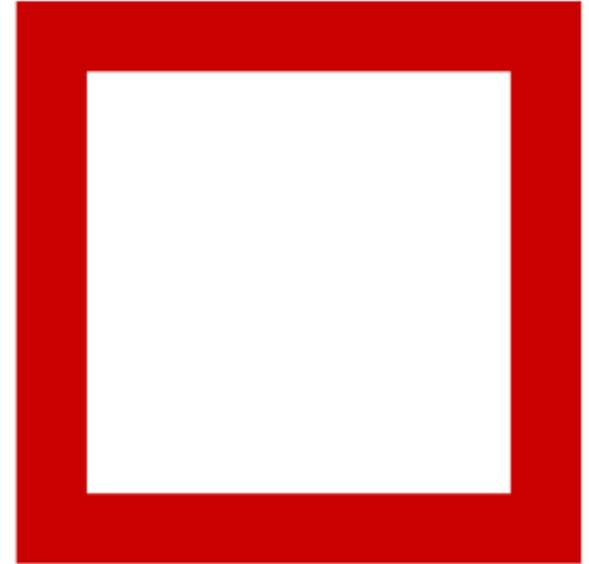
Past Exam Revision- *Answer plan development*

- Now you should be ready to re-read the scenario and set out an answer plan using the controls you identified as you read through.

Work through each paragraph for the scenario identifying specific controls. Each control is worth one mark and the TOC is also worth one mark, hence you need FIVE controls and TOC to gain 10 marks.
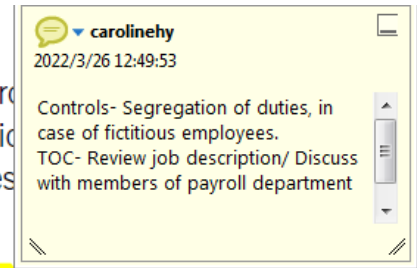
Past Exam Revision- *Answer plan development*

■Answer plan examples

Systems notes – payroll

Raspberry Co employs over 250 people and approximately 70% of the employees work in pro[...]station. There are three shifts every day with employees working eight hours each. The productio[...]weekly in cash. The remaining 30% of employees work at the head office in non-production roles [...]by bank transfer.

The company has a human resources (HR) department, responsible for setting up all new joiners. Pre-p[...]ed forms are completed by HR for all new employees and, once verified, a copy is sent to the payroll department for the employee to be set up for payment. This form includes the staff member's employee number and payroll cannot set up new
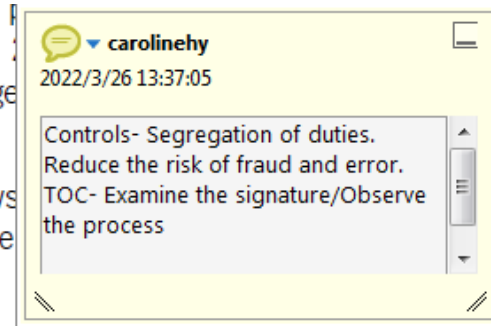
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Controls- Segregation of duties, in case of fictitious employees.
TOC- Review job description/ Discuss with members of payroll department

Past Exam Revision- *Answer plan development*

■Answer plan examples

On a quarterly basis, exception reports relating to changes to the payroll standing data are [...] the payroll director. No overtime is worked by employees. Employees are entitled to take [...] Holiday request forms are required to be completed and authorised by relevant line manage[...] always occur.
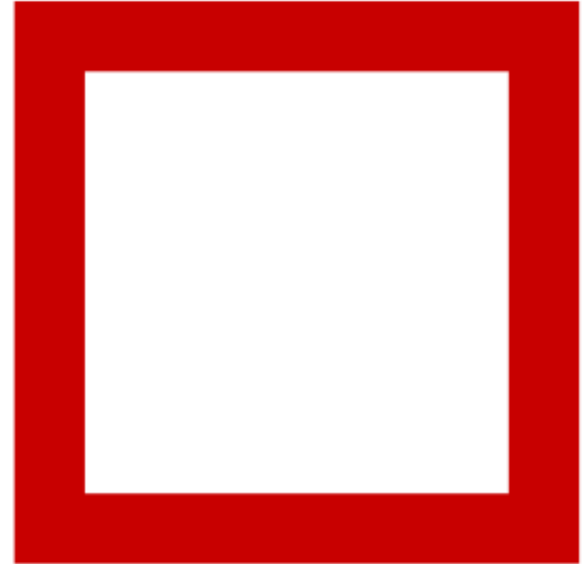
On a monthly basis, for employees paid by bank transfer, the senior payroll manager reviews [...] and agrees this to the payroll records prior to authorising the payment. If any errors are [...] manager amends the records.

For production employees paid in cash, the necessary amount of cash is delivered weekly from [...] bank by a security company. Two members of the payroll department produce the pay packets, one is responsible for preparing them and the other checks the finished pay packets. Both members of staff are required to sign the weekly payroll listing on completion of this task. The pay packets are then delivered to the production supervisors, who distribute them to employees at the end of the employees' shift, as they know each member of their production team.

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> Controls- Segregation of duties.
> Reduce the risk of fraud and error.
> TOC- Examine the signature/Observe the process

Step 3
Answer complete

Past Exam Revision- *Answer complete*

❑ *Answer samples*

Key control

Raspberry Co has a separate human resources (HR) department which is responsible for setting up all new employees.

Having a segregation of roles between human resources and payroll departments reduces the risk of fictitious employees being set up and also being paid.

Test of control

Review the job descriptions of payroll and HR to confirm the split of responsibilities with regards to setting up new joiners.

Discuss with members of the payroll department the process for setting up new joiners and for confirmation that the process is initiated by HR.

Past Exam Revision- *Answer complete*

☐ *Answer samples*

| Key control	Test of control
The pay packets are prepared by two members of staff with one preparing and one checking the pay packets and this is evidenced by each staff member signing the weekly listing.	Observe the preparation of the pay packets ensuring that two members of staff are involved and that pay packets are checked for accuracy.
This ensures there is segregation of duties which prevents fraud and errors not being identified.	For a sample of weeks throughout the year, inspect the weekly payroll listing for evidence of signature by the two members of staff involved in the preparation of the pay packets.

Conclusion
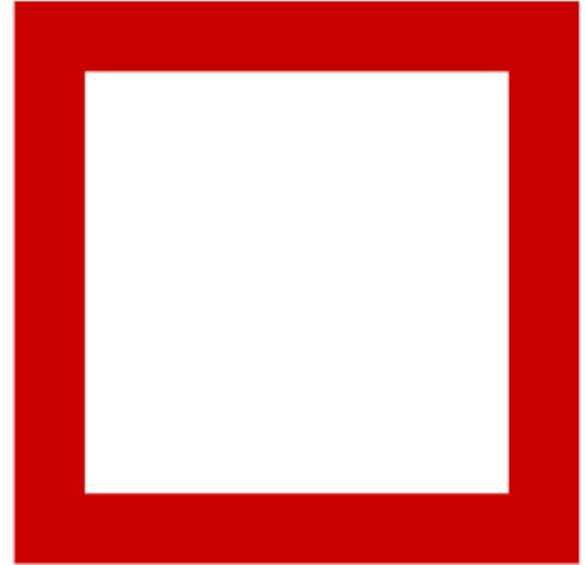
Past Exam Revision- *Conclusion*

▪ *Exam success skills*

✓ Managing information- noting the key verbs in the requirement

✓ Correct interpretation of requirements- you need to **both** identify and explain the control activities **and** describe the corresponding test of controls

✓ Answer planning- highlighting, bullet-pointed lists, or simply making notes are all fine

✓ Effective writing and presentation- follow the specific format provided by the examining team

✓ Good time management- better to complete within 18min (10 marks)

Past Exam Revision- *Conclusion*

> ➤ ***Some tips***

- ▪ **Use the information given in the question to guide the structure of your answer.**

- ▪ **Answer ALL parts of the question, try not to omit any question.**

- ▪ **Create a practical answer relevant to the scenario, rather than simply listing rote-learned points in the textbook.**

Thank you