

You are an audit supervisor of Halley & Co and you are reviewing the documentation describing Comet Publishing Co's purchases and payables system in preparation for the interim and final audit for the year ending 30 September 20X7. The company is a retailer of books and has ten stores and a central warehouse, which holds the majority of the company's inventory.

Your firm has audited Comet Publishing Co for a number of years and as such, audit documentation is available from the previous year's file, including internal control flowcharts and detailed purchases and payables system notes. As far as you are aware, Comet Publishing Co's system of internal control has not changed in the last year. The audit manager is keen for the team to utilise existing systems documentation in order to ensure audit efficiency. An extract from the existing systems notes is provided below.

Extract of purchases and payables system

Store managers are responsible for ordering books for their shop. It is not currently possible for store managers to request books from any of the other nine stores. Customers who wish to order books, which are not in stock at the branch visited, are told to contact the other stores directly or visit the company website. As the inventory levels fall in a store, the store manager raises a purchase requisition form, which is sent to the central warehouse. If there is insufficient inventory held, a supplier requisition form is completed and sent to the purchase order clerk, Oliver Dancer, for processing. He sends any orders above \$1,000 for authorisation from the purchasing director.

Receipts of goods from suppliers are processed by the warehouse team, who agree the delivery to the purchase order, checking quantity and quality of goods and complete a sequentially numbered goods received note (GRN). The GRNs are sent to the accounts department every two weeks for processing.

On receipt of the purchase invoice from the supplier, an accounts clerk matches it to the GRN. The invoice is then sent to the purchase ordering clerk, Oliver, who processes it for payment. The finance director is given the total amount of the payments list, which she authorises and then processes the bank payments. Due to staff shortages in the accounts department, supplier statement reconciliations are no longer performed.

Other information – conflict of interest

Halley & Co has recently accepted the audit engagement of a new client, Edmond Co, who is the main competitor of Comet Publishing Co. The finance director of Comet Publishing Co has enquired how Halley & Co will keep information obtained during the audit confidential.

Required:

(c) In respect of the purchases and payables system for Comet Publishing Co:

(i) Identify and explain FIVE deficiencies;

(ii) Recommend a control to address each of these deficiencies; and

(iii) Describe a TEST OF CONTROL the auditor should perform to assess if each of these controls, if implemented, is operating effectively to reduce the identified deficiency.

Note: Prepare your answer using three columns headed Control deficiency, Control recommendation, and Test of control respectively. The total marks will be split equally between each part. (15 marks)