

areas: system access and security; systems development and program changes; and organization of the IT function.

Required

Outline an audit plan that specifies audit objective and procedures needed to test controls in the areas of concern.

4. AUDIT PLAN

The auditors for Golden Gate Company have a gut feeling that liabilities may be unrecorded. Their initial suspicions stem from a radical decline in accrued liabilities from last year. Golden Gate's records are all computerized.

Required

Devise a plan to search the data files to perform a substantive test for identifying unrecorded liabilities.

5. RISK IDENTIFICATION AND PLAN OF ACTION

Two years ago, an external auditing firm supervised the programming of embedded audit modules for Pre-vits Office Equipment Company. During the audit process this year, the external auditors requested that a transaction log of all transactions be copied to the audit file. The external auditors noticed large gaps in dates and times for transactions being copied to the audit file. When they inquired about this, they were informed that increased processing of transactions had been burdening the Main-frame system and that operators frequently had to turn off the EAM to allow the processing of important transactions in a timely fashion. In addition, much maintenance had been performed during the past year on the application programs.

Required

Outline any potential exposures, and determine the courses of action the external auditors should use to proceed.

6. RISK IDENTIFICATION AND PLAN OF ACTION

The internal auditors of Brown Electrical Company report to the controller. Because of changes made in the past year to several of the transaction processing programs, the internal auditors created a new test data set. The external auditors requested that the

old data set also be run. The internal auditors, embarrassed, explained that they overwrote the original test data set.

Required

Outline any potential risks, and determine the courses of action the external auditor should take.

7. SYSTEMS DEVELOPMENT AND PROGRAM CHANGES

Winston Financial Services (WFS), located in Parsippany, NJ provides financial advice to small and mid-sized businesses. Its primary operations are in portfolio management and financial services for clients in the health care industry. Each client has general business and financial information stored on servers in the main office in Parsippany. Client investment information is stored on a separate server in their Tulsa Oklahoma data center. This includes the total value of the portfolio, type of investments made, the income structure of each client, and associated tax liabilities.

WFS had purchase specialized asset management software called VIEW, which allows the company to run analytics on client portfolios and to run simulations of market trends. The customization and implementation of VIEW was performed by a team of IT professionals from the consulting firm of Cutting Edge Solutions (CES).

The contract with CES required them to train a WFS employee to maintain VIEW after the implementation. For this purpose, WFS selected a programmer from their systems maintenance group who was subsequently trained in VIEW's proprietary language and all of its functionality and controls.

Two years after the implementation of VIEW, WFS management is now considering investing in a significant custom upgrade to the system. Furthermore, since their contract with CES has expired, they have decided to assign the upgrade task to their in-house maintenance programmer who had been trained in VIEW by CES. Once the project is completed, the programmer will be redeployed to the maintenance group. This is viewed by the WFS management team to be the most feasible and economic approach.

Required

- Discuss the risks associated with systems development approach.
- What controls weaknesses are apparent in this approach?

8. AUDIT OBJECTIVES AND PROCEDURES

You are conducting substantive tests on the accounts receivable file to verify its accuracy. The file is large, and you decide to sample test the records in it. Because of the complexity of the database structure, you cannot access it directly. The client's systems programmer writes a special application that produces a flat file, which he provides for testing purposes.

Required

Discuss any concerns you would have as an auditor and any actions you would take.

9. RISK IDENTIFICATION AND PLAN OF ACTION

As the manager of the external audit team, you realize that the embedded audit module writes material invoices only to the audit file for the accounts receivable confirmation process. You are immediately concerned that the accounts receivable account may be substantially overstated this year and for the prior years in which this EAM was used.

Required

Explain why you are concerned because all "material" invoices are candidates for confirmation by the customer. Outline a plan for determining if the accounts receivable are overstated.

10. COMPUTER-ASSISTED AUDIT TOOLS AND TECHNIQUES (CAATTS)

Required

- a. Explain the advantages of using GAS to assist with IT audits, and give five examples of how it may be used.
- b. Describe the audit purpose facilitated and the procedural steps to be followed when using the following CAATTS.
 1. ITF
 2. EAM
 3. parallel simulation

11. AUDIT OF SYSTEMS DEVELOPMENT

The Balcar Company's external auditors are developing an audit plan to review the company's systems development procedures. Their audit objectives are to ensure that

1. the system was judged necessary and justified at various checkpoints throughout the SDLC.
2. systems development activities are applied consistently and in accordance with management's policies to all systems development projects.
3. the system as originally implemented was free from material errors and fraud.
4. system documentation is sufficiently accurate and complete to facilitate audit and maintenance activities.

The following six controllable activities have been identified as sources of audit evidence for meeting these objectives: systems authorization, user specification, technical design, internal audit participation, program testing, and user testing and acceptance.

Required

- a. Explain the importance of each of the six activities in promoting effective control.
- b. Outline the tests of controls that the auditor would perform in meeting audit objectives.

12. PAYROLL APPLICATION CONTROL

Using this supplemental information, analyze the flowchart in the diagram for Problem 12.

- The personnel department determines the wage rate of all employees. To start the process, the personnel department sends the payroll coordinator, George Jones, an authorization form to add an employee to the payroll. After Jones enters this information into the system, the computer automatically determines the overtime and shift differential rates for the individual, updating the payroll master files.
- Employees use a time clock to record the hours worked. Every Monday morning, George Jones collects the previous week's timecards and begins the computerized processing of payroll information to produce paychecks the following Friday. Jones then reviews the timecards to ensure that the hours worked are correctly totaled; the system determines overtime and/or any shift differential.
- Jones performs all other processes displayed on the flowchart. The system automatically assigns a sequential number to each payroll check produced. The check stocks are stored in a box next to the computer printer to provide immediate access. After the checks are printed, an automatic check-signing machine signs them with an authorized signature plate that Jones keeps locked in a safe.