**Question No: 01**

**1.1** Electronic Commerce (e-commerce)

Electronic commerce (e-commerce) refers to the way of buying and selling of goods and services over electronic system such as internet or other computer networks. Several concepts related to e-commerce are electronic funds transfer (EFT), inventory management system, automated data collection system, supply chain management (SCM), and online transactions processing.

**Electronic Funds Transfer (EFT):** In e-commerce business, payments are made through electronic means. Customer payments are made through credit card. The whole payment system are made automated electronic system.

**Inventory Management System:** Inventory system of the company are integrated to the e-commerce business model (ordering and payment system) to make real time shipment of products based on customer orders and payments.

**Supply Chain Management (SCM):** An integrated, which is backed by high and sophisticated technological infrastructure, is required to develop to successfully conduct the e-commerce business.

**Online Transactions Processing:** In e-commerce business, the whole business transaction including ordering, confirmation, invoicing, and payment are made through electronic ways without physical meeting of the buyers and sellers.

Electronic Data Interchange (EDI)

Electronic Data Interchange (EDI) is the way of data and information transmission between organizations by utilization of computers and phone lines. Business transactions with suppliers, customers, and vendors are now easier, cheaper, and faster with the utilization of EDI. It is the most effective and time proven way of conducting electronic business transactions. Several concepts in connection with explaining functioning of EDI are as follows.

**Buisness Partners:** Business partners or trading partners are the parties or organizations within which the files are transmitted electronically.

**Standardized File Format:** Standardized file formats are transferred or transmitted among the computers of the organizations. Standardized file formats are used and sent so that computers at both communication end are being able to read and understand the documents.

**VAN (Value Added Network):** Standardized file formats are transferred or transmitted electronically through VAN (Value Added Network) over internet. The role of VAN is electronic post office as it receives, stores, and moves EDI files.

Benefits of Successful e-commerce implementation

Successful implementation of e-commerce business is advantages for the company. The benefits of successful implementation of e-commerce are as follows.

* E-commerce enables the business organization to break down the geographical boundaries and limitations of international market (Tutorial Points, 2015). New markets and opportunities can be easily explored with the e-commerce business. Customers of any part of the world can make transactions with just making some click on the computer mouse. Overall customer base and revenue of the company will be increased from the successful implementation of e-commerce business (Tutorial Points, 2015).
* E-commerce enables the business organization to offer a wide range of choices and provide a higher level of information to customers for making product search and product comparison (Khurana, 2016). Overall customer base and revenue of the company will be increased from easy access to information and more product search by the customers.
* E-commerce enables the business organization to easily create, process, distribute, retrieve information etc. and decrease operational cost (Khurana, 2016). If successfully can be implemented, the cost of e-commerce business is lower than the traditional brick and motor business (Tutorial Points, 2015).
* E-commerce enables the business organization to open the business and trading 24 hours a day (Khurana, 2016). Business is always opened on the internet without having overtime and extra cost. Overall customer base and revenue of the company will be increased from more business hours and all time access by the customers to the stores of the company (Khurana, 2016).

**1.2** A risk can be defined as anything that can jeopardize the achievement of goals or objectives (Gartenberg, 2004). Several risks in the implementation of e-commerce of business can be categorized as information risk, transaction risk, technology risk, operational risk, security risk and business risk (Visually, 2015). These business risks are discussed below.

Information Risk: Several events that raise to information risk for e-commerce business are as follows.

* Flight of intellectual property due to turnover of employees.
* Infringement and violation of copyright, trade secret etc. by website developers.
* Website content page may expose to libel, slander etc (Visually, 2015).
* After unauthorized access, damaging of information about customers and employees (Visually, 2015).
* Disclosure of credit card information intercepts in transit for the fraudulent purpose.
* Legal exposure in other countries outside host one due to using of creative materials in Information content (Gartenberg, 2004).
* Web site information content may include defamatory statements that result in legal liability or embarrassment (Visually, 2015).
* Erroneous results due to changing of information or inserting of wrong information in transactions processing (Gartenberg, 2004).

Transaction Risk: Several events that raise to transaction risk for e-commerce business are as follows.

* Disclosure of credit card information during the payment system
* Transactions are subject to several malicious attacks including virus, worms, Trojan horse etc (Gartenberg, 2004).
* Slow service and transactions processing due to server down.

Operational Risk: Several events that raise to operational risk for e-commerce business are as follows.

* A drop of the website traffic due to change in the algorithm of the search engine (Gartenberg, 2004).
* Price reduction by the competitors in the market.
* Delay in the shipment of delivery due to change in policy or problem in shipping manifest (Gartenberg, 2004).
* Store off-line due failure or problem of hosting company.
* The sourcing policy of website companies when products are sold in other websites (like e-bay, amazon etc.) (Visually, 2015).

Technology Risk: Several events that raise to technology risk for e-commerce business are as follows.

* Operation complicacy due to poor software design.
* Unauthorized access to the website.
* Infection of the website by the computer virus.
* The crash of Internet Service Provider (ISP) server (Gartenberg, 2004).
* The busyness of ISP phone numbers.
* The poor performance of ISP outages.
* Insufficient bandwidth to handle the traffic in the website (Gartenberg, 2004).
* The problem in geographical download handling.
* Long customer service and response time due to poor website design.
* Poor integration of e-commerce software with the internal operational database (Gartenberg, 2004).
* Poor integration of e-commerce software with the internal operational process (Visually, 2015).

Security Risk: Several events that raise to the security risk for e-commerce business are as follows.

* Unauthorized access to customers’ database by the employees or outside parties.
* Weak password protection and firewall.
* Disclosure of credit card information of the customers (Gartenberg, 2004).
* Leakage of information about credit cards during data and information transmittal (Gartenberg, 2004).

Business Risk: Several events that raise to business risk for e-commerce business are as follows. (Visually, 2015)

* Containing defamatory information by the electronic bulletin board.
* Conduction of illegal promotional games i.e. sweepstakes, contests etc (Visually, 2015).
* The dispute in the payment to website developers and web-hosting company (Visually, 2015).
* Lack of proper maintenance of web pages.
* High distribution (shipping) cost.
* Inability to deliver the products due to poor communication with suppliers (Gartenberg, 2004).
* Inconvenient return policy.
* High dependency to ISP company in supporting business strategy.
* Lack of proper integration of e-commerce with supply chain system (Visually, 2015).
* Lack of capability in managing cycle time to develop, present, and process web-based products and services (Gartenberg, 2004).

**Question No: 02**

**2.1** The internal control system of Allim (Pty) Ltd was so good. There were some weaknesses in in the internal control system of Allim (Pty) Ltd that enabled Jane Martins, an employee of accounting and administration department of Allim (Pty) Ltd, being able to perpetrate the fraud. The weaknesses of the internal control system of Allim (Pty) Ltd are discussed below.

* Allim (Pty) Ltd has not any formal internal to control policy manage operation and create safeguards against frauds. No internal control environment is set up within the origination. An organization-wide control environment would be set up if the top management have a proper attitude with respect to the importance of controls and proper infrastructural set up for internal controls (Henderson, 2015). Control environment ensures organization-wide practice of integrity & ethical values, high employee commitment to competence, and assignment of proper authority & responsibility for tasks (Henderson, 2015). The lack of control environment creates loopholes for the employees in the organization to perpetrate in fraudulent activities. Also due to lack of proper control environment, Allim (Pty) Ltd was not concerned with ensuring the practice of integrity & ethical values within the organization. If such practice would be followed the previous track record of the employees hired would be checked up. Checking of previous track record of Jane Martins, as a part ensuring organization-wide practice of integrity & ethical values, would enable the Allim (Pty) Ltd know about bad previous track record of Jane Martins, and taking decision of not hiring or if already hired observing (for controlling) the activities of Jane Martins.
* Allim (Pty) Ltd has not properly concentrated on proper segregation of duties. A key component of the internal control process in the control activities. Control activities are the policies and procedures to effectively carry out the operation of the company. Proper segregation of duties is a control activity to reduce the possibility of fraud in business activities (Beasley, Buckless, Glover, & Prawitt, 2014). In Allim (Pty) Ltd, Jane Martins were allowed to performance all the activities related to payment to creditors including preparing creditors list, collecting details supporting documents for creditors’ payments, taking approval (authorization), and disburse payments. Performing of all the functions by her has provider her a scope to engage in fraudulent activity. Review of tasks, another control activity to reduce the possibility of fraud in business activities (Arens, Elder, & Beasley, 2012), were prevalent in the operation of Allim (Pty) Ltd. The activities of Jane Martins were not properly reviewed. Non-review of activities has provided her an opportunity to engage in fraud.
* Allim (Pty) Ltd has not properly concentrated on risk assessment in the internal business process and operation. The discovery of fraudulent activity by Jane Martins is purely by chance. Allim (Pty) Ltd has no formal procedure to review that whether the operation of the company is subject to fraudulent activities, whether the company has internal policy and procedure to properly manage operations & take safeguard against the likely frauds, and whether the internal policy and procedure to properly manage operations & take safeguard against the frauds are effective (Beasley, Buckless, Glover, & Prawitt, 2014). If there was a checking of the effectiveness of internal control activities, Jane Martins would not get the opportunity to chat away to the signatories in check signing time.
* Allim (Pty) Ltd has not properly concentrated on gathering and communication information with respect to safeguard assets, accounting records, and back-up data. Proper concentration to gathering and communication information regarding reconciliation and review of bank statement and paid cheques, and all expense account would close the loophole of creating fraud and concealing the amount retrieved systematically to expense accounts.
* Allim (Pty) Ltd has not properly concentrated on monitoring of overall operational and internal control effectiveness. Jane Martins has tried to conceal fraud systematically manipulated in a number of areas over a long period of time. If management of the company properly concentrated to monitoring of overall operational and internal control effectiveness, the scope of such fraud would be minimized.

**2.2** If Allim (Pty) Ltd paid its creditors by electronic funds transfer, the scope for the Jane Martins to engage in cheque fraud would not be created. The fraud of Jane Martins was mainly happened in the authorization, clearing, and reconciliation of the balance of cash book & bank book. If vendors are directly paid through electronic funds transfer, the scope of improper authorization, and fund clearing would not be created as on the electronic system only authorized and system permitted vendors could be paid. The payment could not be released with inaccurate vendor name typing and subsequently showing the payments to other vendors. The system would permit payments only if nominated vendors are paid and the name of the vendors are accurately typed.

**3.3** Internal Memo

Dated: August 24, 2016

To: Board of Directors, Allim (Pty) Ltd

From: Internal Audit Division, Allim (Pty) Ltd

Subject: Recommendation for improving internal control system of Allim (Pty) Ltd

Recently, Jane Martins, an employee of accounting and administration department of Allim (Pty) Ltd, has found as got engaged in perpetrating a fraud. This event indicates that the internal control system of Allim (Pty) Ltd is not good. Followings are some specific recommendations to improve the internal control system, and avoid such events in future.

* Allim (Pty) Ltd should follow and implement strict internal control to properly manage the operation and create safeguards against fraud. Regarding this, the company can follow and implement the internal control model prescribed by COSO (committee of Sponsoring Operations). Implementation of internal control framework prescribed by COSO will enable the company to continuously focus establish organization-wide internal control system to properly the fraud investigation of Jane Martins was purely by chance. Organization should continuously focus on the operations and controlling of fraudulent activities.
* Allim (Pty) Ltd should concentrate on collecting previous track record of the employees. Employees with the bad previous track record should not be hired or if hired is/her action should be monitored properly.
* Allim (Pty) Ltd should ensure proper segregation of duties. Lack of segregation of duties was the main cause of creating the loophole to engage in fraud by Jane Martins. Several functions in a total transactions cycle should be handled through assigning different tasks to different people.
* Allim (Pty) Ltd should ensure proper review of the task at every stage of the business process. If the functions of Jane Martins was reviewed the scope to engage in fraud would not be created. The activities of the subordinates should be reviewed by the supervisory personnel.

Thank You.

**Question No: 03**

**3.1** Six questions that should be put to the manager of the distribution department in order to obtain background for assessing the effectiveness of the distributing activities are as follows.

* What is the expected lead time in the distribution, and what is the actual lead time?
* Does distribution department has the internal procedure to assess and report on the effectiveness of the distributing activities to the upper management?
* Is there any internal operational manual for the activities of the operational department, and if there is an operational manual is it regularly updated given change in market environment and customer demand?
* Does distribution department conduct any customer survey to assess the efficiency of the operational channel in terms of on time and easy access to the newspaper by the customers, and if any survey is conducted what is the result of the survey?
* Is any internal budget and variance analysis are conducted for distribution activities? If done, then whether any step is taken to resolve unavoidable variance or not?
* Is there any redundancy in the operational flow and activates in distribution workflow that increase time and cost in the distribution?

**3.2** The steps to assess the mission statement of Fast Moving Ltd are as follows.

a) Asking the strategic personnel of the company: An inquiry should be made to the key strategic personnel with respect to-

* The purpose of mission statement.
* The basis of design of mission statement.
* The priorities, goals, and objectives prescribed in the mission statement.

b) Reviewing design of mission statement: A review of the wording of mission statement should be made to understand-

* Desired outcomes from the mission statement.
* Strategies or game plan to achieve the desired outcome.

c) Assessing the outcome of mission statement: An assessment of the effectiveness of the mission statement of the company can be made in terms of –

* How realistic the goals and objectives prescribed in the mission statement?
* How employees are motivated from mission statement?
* How extent the prescribed goals and objectives have been achieved?

**3.3** Five audit procedures for the operational audit of Fast Moving Ltd’s distribution department are as follows.

|  |  |  |
| --- | --- | --- |
| **Audit Procedure** | **Objectives** | **Details** |
| Review the electronic or manual order (command) in managing the distribution of newspapers. | The key objective is to observe the electronic or manual order in managing the distribution of newspapers. for assessing efficiency. | 1. Review the electronic or manual order (command) in managing the distribution of newspapers. 2. Understand how effectively the distribution is managed with central electronic or manual order (command). 3. Assess the success in managing the distribution channel operation through central electronic or manual order (command). |
| Review the contract papers  with the different outlets | The key objective is to observe the price paid for  outlet services, and compare the company’s outlet service price with that of the outlet service price of others for assessing the economy. | a) Review the service price paid for outlet services by the company.  b) Collect data and information on the service price paid for outlet services by the competitors in the market.  c) Compare in between outlet service price of Fast Moving Ltd with that of the competitors to assess the economy of the Fast Moving Ltd’s distribution. |
| Review the  system and layout flowchart of the distribution channel | The key objective is to observe the redundant flows in the distribution channel for assessing efficiency. | 1. Check the system and layout flowcharts of the distribution channel. 2. Analyze the overall workflow to assess time and cost of the distribution process. 3. Find out redundant or non-value additive flows or activities in the distribution channel. 4. Assess the efficiency of distribution channel in terms of cost and time in the distribution of the newspapers. |
| Observe the company’s internal process in setting of  nature, scope, and measuring criteria of goals and objectives achievement. | The key objective is to observe whether company’s internal process in setting of  nature, scope, and measuring criteria of goals and objectives achievement is effective or not for assessing overall efficiency (the higher efficiency of the internal process in setting of nature, scope, and measuring criteria of goals and objectives achievement, the better the performance of distribution process). | 1. Check the quality of the people who are engaged in setting of nature, scope, and measuring criteria of goals and objectives achievement.   b) Observe the internal process to in setting of nature, scope, and measuring criteria of goals and objectives achievement.  c) Look at the findings of management reports.  d) Evaluate how efficient the internal process of Fast Moving Ltd in setting of nature, scope, and measuring criteria of goals and objectives achievement for the distribution network. |
| Review the  organogram of the department | Observe the organogram of the department for assessing the effectiveness of the departmental operation based on quality and background of the personal. | a) Check the education background and previous experience of the personnel employed in the distribution department.  b) Check the several posts and respective job descriptions to ensure that right person is engaged in right job or function. |

**Question No: 04**

4.1 The engagement objectives of the internal audit of the personnel function of Wonna-Be Corporation are enumerated below.

* To properly review and observe the procedures of recruitment & selection, training, compensation, promotion, and development of personnel across departments.
* To find out and report on any irregularities in the recruitment of employees across departments after reorganization.
* To identify and report to any redundant functions or people after the reorganization of Wonna-Be Corporation.
* To assess and report on the efficiency and efficacy of the organization in placing of right people in the right jobs.
* To assess and report on the demotivation, frustration, demoralization among the employees, and the way to resolve such problems.
* To assess and report on the overall productivity of the employees.
* To identify and report on the human resources needs of the Wonna-Be Corporation after the reorganization of the organization.

**4.2** Ten engagement procedures for internal audit of the personnel function of Wonna-Be Corporation are discussed below.

|  |  |  |
| --- | --- | --- |
| **No** | **Engagement Procedure(s)** | **Description** |
| 01 | Review the internal Human Resources Management (HRM) manual | a) Check the existence of internal Human Resources Management (HRM) manual.  b) Check whether the internal Human Resources Management (HRM) manual is properly followed across departments with respect recruitment & selection, training, compensation, promotion, and development of personnel after reorganization. |
| 02 | Review the organizational structure and chart | a) Understand the current employee hierarchy and position across the departments.  b) Understand the needs of new employees with relevant skills after reorganization. |
| 03 | Review the recent recruitment & selection, training, compensation, promotion, and development of personnel across several departments | a) Review employees personal file recently recruited, transferred, trained, promoted, and developed.  b) Find out any irregulars with respect to recent recruitment, training, promotion, and development of personnel across several departments. |
| 04 | Make an inquiry to the departmental heads regarding demotivation, frustration, and productivity of the employees | a) Ask to the departmental heads regarding demotivation, frustration, and productivity of the employees of his/her department.  b) Understand the human resources needs of the departments. |
| 05 | Make an inquiry to the employees regarding any suspect frauds or irregulars | a) Inquiry to employees of regarding suspect frauds or irregulars with respect to recruitment & selection, training, compensation, promotion, and development of personnel.  b) Obtain clue of any already happened fraud or irregularity, or on-going fraud or irregularity with respect to recruitment & selection, training, compensation, promotion, and development of personnel. |
| 06 | Review the report submitted to the board regarding personnel difficulties | a) Look at the report submitted to the board regarding personnel difficulties to understand the nature and source of problems.  b) To point out the suspected and likely problem areas. |
| 07 | Review the employee’s placement policy of the company | a) Review the employee’s placement policy of the company in terms of job description and employee’s skills and abilities.  b) Understand the efficiency of employees’ placement policy of the company. |
| 08 | Make an inquiry on irregularities on recruitment & selection, training, compensation, promotion, and development of personnel across several departments | a) Check for any irregularities on recruitment & selection, training, compensation, promotion, and development of personnel across several departments.  b) Understand any on-going or already happened fraud or irregularities on recruitment & selection, training, compensation, promotion, and development of personnel across several departments. |
| 09 | Conduct an internal employee motivation survey | a) Conduct a survey to assess the motivation of the employees.  b) Assess and understand the employees’ satisfaction level across various departments. |
| 10 | Make an enquiry for personnel need given change requirement in the workplace after reorganization | a) Ask to the departmental heads regarding personnel need given change requirement in the workplace after reorganization.  b) Understand the human resources needs of the departments for the proper and smooth functioning of the departments. |

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